Annuity Care® II and Tax Advantages under the Pension Protection Act (PPA)

Annuity Care II includes provisions that allow the product to be considered PPA compliant meaning:

- Long-term care (LTC) benefits from Long-Term Care Accumulated Value (LTCAV) are income tax-free as reduction of basis
- LTC benefits from Continuation of Benefits (COB) provision are income tax-free
- Monthly charge for COB is income tax-free as reduction of basis

Let's look at each of these elements using an example.

Utilizing the LTCAV for qualifying LTC expenses

Carol purchases Annuity Care II with a single premium of $85,000, which is her cost basis. After a number of years, the LTCAV has now grown to $110,000, and her cost basis is now $80,000. In that year, she withdraws $20,000 of her LTCAV for qualifying LTC expenses.

The result is no taxation to Carol, and a reduction in her cost basis to $60,000 ($80,000–$20,000).

Utilizing the COB provision for qualifying LTC expenses

Carol has utilized her entire LTCAV for long-term care expenses and is now accessing the COB provision of her Annuity Care II.

She accesses $60,000 of her COB Balance for qualifying LTC expenses in a given year.

The result is no taxation to Carol on the COB Balance used.

Paying for the COB provision through monthly charges

Each month, a charge is deducted from the Accumulated Value (AV) of Carol's Annuity Care II for the COB provision in the contract. Her cost basis/single premium is $80,000. In the first calendar year, the charges to her cash value for the COB provision total $500.

The result is no taxation to Carol, and a reduction in her cost basis to $79,500 ($80,000–$500).

Annuity Care II gives its policyowners the tax advantages of the PPA for qualifying LTC expenses, while retaining the standard taxation rules of nonqualified deferred annuities for non-LTC distributions, which include:

- Full and partial surrenders are treated as taxable to the extent there is gain in the contract (the amount by which the cash value of the contract exceeds the contract's basis).
- Payments made under an annuitization (settlement) provision will return the owner's basis as a part of each payment via an exclusion ratio until basis has been completely returned (after which payments become fully taxable).

Note: Products issued and underwritten by The State Life Insurance Company® (State Life), Indianapolis, IN, a OneAmerica® company that offers the Care Solutions product suite. Underwritten and issued by State Life, Annuity Care II is a single premium fixed interest deferred annuity that combines long-term asset growth with long-term care benefits. Policy form SA35 may not be available in all states or may vary by state. • Any individuals used in scenarios are fictitious and all numeric examples are hypothetical and were used for explanatory purposes only. • Provided content is for overview and informational purposes only and is not intended as tax, legal, fiduciary, or investment advice.

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