



Long Term Care University

Long Term Care University – Question of the Month

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Q: We read the Long Term Care University article ‘**Traditional Versus Hybrid Life and Long Term Care Insurance**’ and ‘**1035 Tax-Free Exchange**’. Can you please explain Hybrid Annuities with Long Term Care (LTC)?

The Problem – Paying for a Long Term Care with a Traditional Annuity Can be Taxing

According to the U.S. Department of Health and Human Services, **7 in 10 people over the age of 65 will require long term care (LTC)**. According to a Gallop survey, **73%** of annuity owners intend to use their annuity as an emergency fund for a catastrophic illness or nursing home care. Unfortunately, withdrawals of gains from traditional annuities are taxed as income. Based on a 25% federal income tax rate (excluding state income taxes), withdrawing \$100,000 of gains would cost you \$25,000 in taxes.

The Solution – Hybrid Annuity and Long Term Care Policies that Pay Tax-Free Long Term Care Benefits

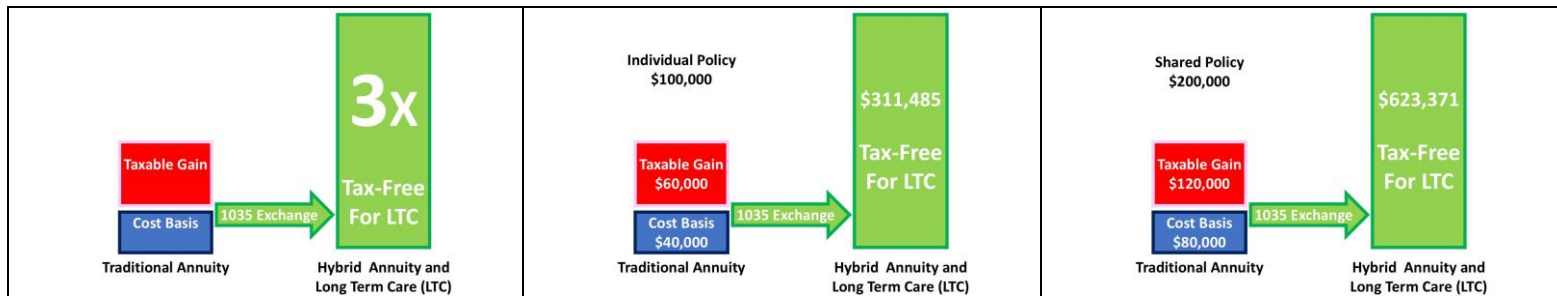
Many consumers purchase an annuity based on their existing and future needs. As those needs change, they realize their existing annuity is inadequate. With the exchange of an old traditional annuity to a new Hybrid Annuity and LTC, you can gain double, triple or even unlimited value of the original annuity for LTC costs. The Pension Protection Act (PPA) of 2006 added additional flexibility to the tax-free 1035 exchange of old annuities to new annuities. **If the new annuity is a Hybrid Annuity and LTC policy and withdrawals are for LTC costs, all the gains from the original policy and the doubling, tripling, etc. of value are tax-free.**

Numbers Speak Louder Than Words. Let’s look at examples for Bill (70) and Sue (70). They can each purchase an individual policy for \$100,000 and each receive \$311,485 of tax-free long term care benefits – over three times the purchase price. They can purchase a shared (joint policy) for \$200,000 and receive \$623,371 of combined tax-free long term care benefits – over three times the purchase price.

Exchanging an Existing Traditional Annuity into a Hybrid Annuity and Long Term Care. If they already own annuities, they will receive the same benefits based on the same purchase price and gain the benefit of exchanging a future taxable event into tax-free long term care benefits. See the images below.

Bill has his own traditional annuity. Sue has her own traditional annuity. While they paid \$40,000 for each for their individual policies, the annuities have \$60,000 of taxable gain and are each now valued at \$100,000. Each of their \$100,000 policies can be exchanged into their own Hybrid Annuity and LTC policy that will each provide \$311,485 of tax-free long term care benefits. See the images below.

They also own a shared (joint) traditional annuity. While they paid \$80,000 for the joint traditional annuity, it has a \$120,000 taxable gain and is now valued at \$200,000. Their joint \$200,000 policy can be exchanged into a shared (joint) Hybrid Annuity and LTC policy that will provide \$623,371 of combined tax-free long term care benefits. See the images below.



Conclusions. A Hybrid Annuity and Long Term Care policy triples your value in tax-free LTC benefits, whether you fund it with a new purchase or a tax-free 1035 exchange. Since premiums vary greatly based on age, health and marital status, request individualized quotes.

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