

Annuities and Long Term Care Insurance

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“The quality of a person’s life is in direct proportion to their commitment to excellence, regardless of their chosen field of endeavor” - Vince Lombardi

In our previous two articles on asset classes, we examined some of the more traditional investment options utilized in a well diversified portfolio. In this analysis, we will consider two important additional modalities that utilize insurance as a part of their strategy. **Annuities** and **Long-Term Care Insurance** provide protection of accumulated assets and offer predictability in the distribution phase of retirement financials.

Annuities

Annuities are investment products that include an insurance component and are backed by the financial strength of the insurance company that structures the investment. The name comes from the ability to convert the investment into a stream of periodic income payments, albeit over the annuitant’s life or a set number of years. Conservative investors prefer an annuity due to the certainty of a predetermined income over their life expectancy. Annuities offer a measure of protection against market downturns, can provide a guaranteed investment return, and grow tax-sheltered until money is withdrawn.

Annuities can be fixed or variable. In general, the return on a fixed annuity is contractual during both an accumulation phase and the distribution phase . The duration of the accumulation phase can be as little as one day to as long as several decades. During the accumulation phase of a variable annuity, you invest in sub-accounts similar to a mutual fund. The sub-accounts are managed by professional investment managers. The return depends on the investment performance of the sub-accounts that are chosen. Some annuities provide a guaranteed minimal return with any additional increase, based on the performance of various equity markets.

Annuities provide tax deferred benefits. They offer an advantage to investors who, at the time of purchase, are in a higher tax bracket than when distributions are made. In addition, the annuity has a death benefit equivalent to either the higher of the current value of the annuity or the amount that has been paid into it.

When considering an annuity as a component of a portfolio, it is important to consider the various fees that may be incurred. Surrender charges are also levied if the annuity is cashed prior to a specific date and typically equal 7 percent.

Long-Term Care Insurance

Long-term care insurance is a type of insurance developed specifically to cover the costs of long-term care services that are not usually covered by traditional health insurance or Medicare. The published average daily cost of nursing home care in North Carolina is currently at \$195 and rises every year. Long-term care insurance provides much needed protection in the event of

debilitating medical illness at any point during retirement. Therefore, it functions as an integral part of an overall diversified investment portfolio.

There is a great deal of choice and flexibility in long-term care insurance policies. It is possible to select a range of care options and benefits that allow investors to get the services needed in the setting most suitable for their particular lifestyle and illness. The cost of long-term care insurance is based on the type and amount of services chosen, as well as how old the investor is at the time the policy is purchased. Policies have varying benefit periods, from several years to a life time. They may have either a maximum benefit restriction based on the length of time that benefits are paid out or a maximum overall payout dollar amount. Additional options may include an inflation protection rider, the ability to “pay up” the policy over a fixed period of time, comprehensive coverage over a wide variety of care settings, and the coverage for a family member to provide in-home care.

Unfortunately, we cannot predict the future of our health any more than we can predict what the markets will be from year to year. A portfolio’s risks are decreased by integrating tools, such as an annuity, which can provide a guaranteed income on a known timetable. Rapid depletion of retirement equity can be avoided by utilizing a mechanism to cover the costs of unexpected care through long term care insurance. The legacy for a spouse, extended family, or significant other is protected from catastrophic extended care expenses. Just as important as building up our portfolios for retirement, is protecting what eventually is to become our “nest egg”. TPI is positioned to provide expert advice and the tools to carry out all of the necessary steps during both the accumulation and distribution phases of retirement on an individual to individual basis.