

FROM THE AUTHOR OF *The Tax-Free Pivot* & *The Private Bank Pivot*

The Living Benefits Pivot

How Life Insurance, Hybrid Long-Term Care and Annuity Riders
Pay You While You're Living · Ages 50 to 85



Terminal

Chronic

Critical

Long-Term Care

Get paid while you're living — not only when you're gone

Plan for care before you need it

Suba Narla

Founder, Wealth Strategies USA

From the author of *The Tax-Free Pivot*, *The Protected Pivot*,
The Wealth Pivot and *The Private Bank Pivot*

THE LIVING BENEFITS PIVOT

Plan for Care · Protect Your Savings · Get Paid While You're Living

*How Life Insurance, Hybrid Long-Term Care and Annuity
Riders Pay You While You're Living*

A Retirement Protection Guide for Ages 50 to 85

by

Suba Narla

Wealth Strategies USA

Book Five of the Pivot Series

The Living Benefits Pivot

How Life Insurance, Hybrid Long-Term Care and Annuity Riders Pay You While You're Living

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DEDICATION

To my wife of more than forty years — my constant, in everything.

To our two daughters, whose dedication carried them through Harvard and Stanford Medical Schools, and whose work makes us endlessly proud.

And above all, to our two grandchildren, who bring us more joy than we knew a life could hold.

For every family that wants to protect the people it loves and keep more of what it has worked so hard to build.

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INTRODUCTION

The Question Nobody Asks at the Kitchen Table

For most of the last century, life insurance was sold with one picture in mind: a family at a graveside. The policy paid out when you died, and the whole conversation was about who would be left behind and how much money they would need. That picture was not wrong. It was simply incomplete.

“Retirement is not the end of the financial project – it is a transition from accumulation to decumulation, from saver to cash-flow manager.”

— Suba Narla, *The Wealth Pivot*

Here is the question most families never ask when they buy insurance: **What happens if I don’t die, but I can’t take care of myself anymore?**

That question matters more today than it ever has. Americans are living longer. A 65-year-old couple today has a real chance that at least one of them will live into their 90s. Medicine is extraordinarily good at keeping us alive through heart attacks, strokes and cancer that would have been fatal a generation ago. That is wonderful news. It also means that more of us will live for years with a chronic illness, a cognitive decline, or a physical limitation that requires help from someone else. And that help is expensive.

According to the U.S. Administration for Community Living, someone turning 65 today has almost a 70% chance of needing some type of long-term care services in their remaining years.

Women who need care need it for an average of 3.7 years, men for about 2.2 years, and about one in five people will need care for more than five years.

Now put a price next to that. The 2025 CareScout Cost of Care Survey found that the national median cost of a private room in a nursing home is about \$129,575 a year. Assisted living runs about \$74,400 a year. A non-medical caregiver at home for 44 hours a week costs about \$80,080 a year.

For a family that spent 40 years building a retirement nest egg, two or three years of care can erase a large part of it. For a surviving spouse, it can mean the difference between a comfortable widowhood and a frightening one.

This is where **living benefits** come in.

A living benefit is any feature of an insurance policy or annuity that pays you while you are still alive when a serious health event happens. It might be an accelerated death benefit that lets you draw part of your life insurance early if you are terminally, chronically or critically ill. It might be a long-term care rider that pays a monthly benefit for home care or a nursing home. It might be an annuity rider that doubles your income if you can no longer perform the basic activities of daily living. The common thread is simple: the money shows up when you need it most, not only when you are gone.

Why This Is a “Pivot”

This book is the fifth in the Pivot series.

- *The Tax-Free Pivot* showed how Roth conversions between ages 50 and 75 can move retirement money from “taxed later” to “tax-free forever.”

- *The Protected Pivot* showed how fixed and fixed index annuities, IRA and 401(k) rollovers, and tax-smart strategies can protect your money from market losses and turn savings into reliable income.
- *The Wealth Pivot* laid out a complete blueprint for building and keeping financial freedom.
- *The Private Bank Pivot* showed how Fixed Index Universal Life can protect a family, build tax-advantaged cash value, and let you become your own banker — with tax-free income for college, business, real estate, retirement and legacy.

The Living Benefits Pivot adds the missing piece: **protecting your plan from a health event**. A beautiful retirement plan can be undone by one diagnosis. The pivot in this book is a change in how you think about insurance, from “money for my family when I die” to “money for my life, my care and my family, whether I die early, live long, or get sick along the way.”

Who This Book Is For

This book is written for adults roughly between 50 and 85 years old, and for the adult children who help them make decisions. If you are in your 50s, you are in the sweet spot: you are usually still healthy enough to qualify for coverage at reasonable prices, and you still have time for your money to grow. If you are in your 60s or 70s, you still have many good options, especially among hybrid policies and annuity riders that have simplified underwriting. If you are in your 80s, you may find that some annuity-based solutions are still available to you, and this book will help you understand them.

You do not need a financial background to read this book. Every term is explained in plain English, and there is a glossary at the back.

How to Use This Book

- **Chapters 1 through 3** explain the problem and the basic tools. Read these first.
- **Chapters 4 through 8** each cover one family of products: term life, whole life, indexed universal life, hybrid life and long-term care, and annuities.
- **Chapter 9** explains the tax rules, which are the reason living benefits can be so powerful.
- **Chapters 10 through 12** bring it all together with hypothetical case studies, a list of pitfalls, and a step-by-step plan you can take to your advisor.

Throughout the book you will see short boxes called **Pivot Points**. These are the ideas worth underlining.

PIVOT POINT

The best time to buy living benefits is before you need them. Insurance is priced on your health today. Every birthday and every new diagnosis can raise the price or take an option off the table.

An Important Word Before We Begin

This book is educational. It is not a recommendation to buy any specific product. Insurance policies and annuities are contracts, and the contract, not this book, controls what is paid and when. Features, costs and availability vary by company, by product and by state, and they change over time. Before you buy anything, read the contract, ask for an illustration, and talk with a licensed insurance professional and a tax advisor who know your full situation.

CHAPTER 1

From “When I Die” to “If I Live”: Why Living Benefits Matter

Most people own life insurance for the same reason they buy a smoke detector: they hope never to use it. The difference is that everyone eventually “uses” their life insurance, one way or another, while very few people plan for the years between healthy retirement and the end of life. Those years are where the real financial risk sits for most families today.

“Traditional LTC insurance, hybrid life/LTC policies, and deliberate self-funding are the three realistic paths – the wrong answer is no plan at all.”

— Suba Narla, *The Wealth Pivot*

Three Ways a Retirement Plan Ends

Imagine three couples, each retiring at 65 with \$800,000 in savings, Social Security, and a paid-off home.

The first couple enjoys 20 healthy years. One spouse passes away suddenly at 85, the other at 88. Their savings last. Their children inherit the house and what remains of the portfolio. Traditional life insurance, if they had any, simply adds to the inheritance.

The second couple is not so lucky early on. At 68, the husband is diagnosed with an aggressive cancer and passes away within 18 months. Treatment costs, travel to specialists, and lost part-time income drain part of their savings. The wife loses one of

the two Social Security checks. A life insurance policy that pays at death helps her, but it pays after the hardest months are over.

The third couple lives long. At 79, the wife is diagnosed with Alzheimer's disease. For the first two years, her husband cares for her at home with help from a part-time aide. Then she needs memory care. Over six years, the family spends more than half a million dollars on care. By the time she passes, the husband is 86, exhausted, and living on a fraction of what they had planned.

Which of these outcomes is most likely? Nobody knows for any one family. But the statistics tell us that the third story is not rare. It is common. And it is the story that traditional retirement planning handles worst.

PIVOT POINT

The biggest financial risk in retirement is often not dying too soon. It is living a long time while needing help.

What Makes Care So Expensive

Long-term care is not medical care in the way most people think of it. It is help with daily living: bathing, dressing, eating, using the bathroom, moving from a bed to a chair, and staying safe when memory fails. This kind of help is labor-intensive. It often requires someone to be present many hours a day, sometimes around the clock.

Because it is mostly labor, the cost of care tends to rise faster than general inflation. Caregivers are in short supply in many parts of the country, and wages have been rising. The 2025

CareScout Cost of Care Survey reported these national median annual costs:

Type of care	National median annual cost (2025)
Adult day health care (5 days a week)	\$24,700
Assisted living community	\$74,400
Non-medical caregiver at home (44 hours a week)	\$80,080
Nursing home, semi-private room	\$114,975
Nursing home, private room	\$129,575

Source: CareScout 2025 Cost of Care Survey, national medians. Costs vary widely by state and city.

Those are medians. In many metropolitan areas and in states like Alaska, Connecticut, Massachusetts and New York, costs run far higher. And if costs keep rising at even 3% a year, a \$129,575 nursing home bill today becomes roughly \$175,000 a year in ten years and about \$235,000 a year in twenty.

“Doesn’t Medicare Cover That?”

This is the single most common misunderstanding in retirement planning. **Medicare does not pay for long-term custodial care.** Medicare pays for hospital stays, doctor visits, prescription drugs (through Part D) and a limited amount of skilled nursing or rehabilitation after a qualifying hospital stay. Once the need becomes help with daily living rather than recovery, Medicare’s coverage ends.

Medicare supplement (Medigap) policies fill the gaps in Medicare’s medical coverage. They do not cover long-term custodial care either.

“What About Medicaid?”

Medicaid does pay for long-term care, and it is the largest payer of nursing home care in the country. But Medicaid is a program for people with very limited income and assets. To qualify, a person usually must spend down their savings to a very low level. States look back at gifts and transfers made in the 60 months (five years) before an application, and transfers made to qualify can trigger a penalty period.

There are protections for a healthy spouse (often called the “community spouse”), and elder law attorneys can help families plan. But relying on Medicaid means accepting fewer choices about where and how care is received, and it usually means spending most of what you saved first.

PIVOT POINT

Medicare is not long-term care coverage, and Medicaid is available mainly after most of your savings are gone. For most middle-class and affluent families, the realistic payers are their own savings, their family, or insurance.

The Hidden Cost: Family Caregivers

When there is no plan, the plan becomes the family. Most long-term care in America is provided by unpaid family members, usually a spouse or an adult daughter. The cost is real even when no check is written. Adult children cut back hours or leave jobs, lose retirement contributions and employer benefits, and often suffer health problems of their own from the stress. A spouse who becomes a full-time caregiver in their late 70s or 80s may damage their own health in the process.

Living benefits do not replace the love and involvement of family. What they do is give the family money to buy help, so that the family can be family and not only caregivers.

The Old Choices Were Hard

For decades, people who wanted to plan for care had two main choices, and both were uncomfortable:

- 1. **Self-insure.** Keep a large pool of money set aside for care. This works for the very wealthy, but for most families it means holding back hundreds of thousands of dollars that might otherwise be spent, invested for growth, or left to heirs.
- 2. **Buy traditional long-term care insurance.** A traditional LTC policy pays for care, often very efficiently. But premiums can go up over time, and many policyholders have experienced large rate increases. And if you never need care, the premiums are gone. Many people call this the “use it or lose it” problem.

What Stand-Alone LTC Costs at Different Ages

How expensive is the traditional route? In *The Private Bank Pivot*, I laid out what the American Association for Long-Term Care Insurance (AALTCI) reports in its 2026 Price Index for a policy with an initial \$165,000 benefit pool, along with an estimate for a larger \$500,000 pool – enough to pay for nearly four years in a private nursing-home room at the 2025 national median.

Age at purchase	Who	AALTCI 2026 average (\$165,000 pool, 3% growth)	Estimated premium (\$500,000 pool)
55	Single man	\$2,200	≈ \$6,700

Age at purchase	Who	AALTCI 2026 average (\$165,000 pool, 3% growth)	Estimated premium (\$500,000 pool)
55	Single woman	\$3,750	≈ \$11,400
55	Couple, combined	\$5,050	≈ \$15,300
60	Single woman	\$4,450	≈ \$13,500
65	Couple, combined	\$7,030	≈ \$21,300
70+	Singles and couples	Substantially higher	Substantially higher; more applicants declined

Annual premiums. The \$500,000 figures scale the AALTCI averages proportionally (about three times) and are planning estimates, not quotes. Premiums vary widely by carrier – often by 29% to 80% for the same coverage – and women pay more than men because they are more likely to need care, and for longer. Source: AALTCI 2026 Price Index, as presented in The Private Bank Pivot.

Numbers like these are why so many families end up doing nothing. The rest of this book is about a third path.

The New Choice: Money That Works Either Way

Living benefits solve the “use it or lose it” problem by attaching care and illness benefits to a product that pays something no matter what happens:

- If you die without needing care, your beneficiaries receive a death benefit.
- If you become terminally, chronically or critically ill, you can receive part or all of that benefit early.
- If you need long-term care, a rider may pay a monthly benefit, sometimes for years beyond the death benefit.

- If you have an annuity, a health-related rider may increase your income or waive surrender charges when you need the money.

In other words, **the same dollars can do more than one job.** That is the heart of the living benefits pivot.

What This Book Will Not Pretend

Living benefits are not magic, and they are not free. Every feature has a cost, whether it shows up as a premium, a rider charge, a lower death benefit, or a discount applied when you accelerate. Some riders are generous and some are thin. Some policies qualify for favorable tax treatment under long-term care rules and some do not. The goal of this book is to help you see the differences clearly so you can ask the right questions and choose what fits your family.

Quick Actions

- ▶ List every life insurance policy and annuity you own, and ask each company whether any living benefit riders are already attached.
- ▶ Look up care costs in your own area and multiply by three years — that is a realistic planning number.
- ▶ Have the plain conversation with your family: who would provide care, and where would you want to receive it?
- ▶ Choose a path on purpose — insure, self-fund, or a blend — instead of letting the decision make itself.

In the next chapter, we will look more closely at the real cost of a health event in retirement and at how it can ripple through your income, your taxes and your spouse's future.

The Ripple Effect: What a Health Event Does to a Retirement Plan

A health event is not just a bill. It is a shock that ripples through every part of a retirement plan: income, investments, taxes, the healthy spouse, and the inheritance you hoped to leave. Understanding those ripples is the first step toward protecting against them.

“A single extended care event can consume a large share of a \$500K–\$1M portfolio.”

— Suba Narla, *The Wealth Pivot*

Ripple One: Withdrawals Jump Overnight

Most retirement plans assume a steady, sustainable withdrawal rate, often somewhere around 4% of the portfolio per year. A care event can double or triple that almost overnight.

Consider a couple with \$900,000 in savings who have been withdrawing \$36,000 a year (4%). One spouse needs home care costing \$80,000 a year. Now they need \$116,000 a year from savings. Their withdrawal rate has jumped to nearly 13%. At that pace, even with reasonable investment returns, the portfolio can be exhausted in roughly eight to ten years, and faster if the care need grows or the market falls at the wrong time.

PIVOT POINT

A care event turns a sustainable 4% withdrawal plan into a 10%–15% withdrawal plan. Few portfolios are built to survive that for long.

Ripple Two: Market Timing Becomes Dangerous

When you have to withdraw money no matter what, you lose the ability to wait out a bad market. If care begins during a market downturn, you may be forced to sell investments at low prices, locking in losses that can never recover. Financial planners call this **sequence-of-returns risk**, and it is at its most dangerous when withdrawals are large.

This is one reason *The Protected Pivot* emphasized keeping a portion of retirement savings in protected, principal-guaranteed products. When a health event hits, it helps enormously to have a source of money that did not go down with the market.

Ripple Three: The Tax Bill Grows

Here is a ripple many people miss. If most of your savings sit in a traditional IRA or 401(k), every dollar you withdraw to pay for care is taxable income. To net \$80,000 for care, you might need to withdraw \$100,000 or more, depending on your tax bracket and state.

There is some relief. Qualified long-term care services can count as medical expenses, and medical expenses above a threshold of adjusted gross income may be deductible if you itemize. But the deduction rarely offsets the full tax cost, and large withdrawals can also push you into higher brackets, increase the taxable portion of Social Security, and raise Medicare Part B and Part D premiums through income-related surcharges (often called IRMAA).

This is where the ideas of *The Tax-Free Pivot* and this book work together. Money in a Roth IRA can be withdrawn tax-free in retirement if the rules are met. And as you will see in

Chapter 9, benefits paid from properly structured living benefit riders can also be received income-tax-free. Tax-free money buys more care.

“Medicare premiums are not flat. They are a strict, cliff-edged tax on income you may have earned two years before the bill arrives.”

— Suba Narla, *The Wealth Pivot*

Ripple Four: The Healthy Spouse Pays the Price

When one spouse needs care, the other spouse’s future is often the one most at risk. The healthy spouse may:

- Spend down savings they will need for the rest of their own life.
- Lose one Social Security check when the ill spouse passes away (the survivor keeps the larger of the two checks, not both).
- Lose part of a pension if a survivor option was not chosen.
- Move from filing jointly to filing single, which often means higher tax brackets on similar income. This is sometimes called the “widow’s penalty.”
- Damage their own health as a caregiver.

A family that has spent \$400,000 on care for one spouse may leave the survivor with 15 or 20 years to live on what remains. Living benefits are, in many ways, **protection for the healthy spouse.**

Ripple Five: The Legacy Shrinks

Many retirees want to leave something behind for their children, grandchildren, church, or favorite charity. A long care event is the single biggest threat to that legacy. Money meant for the next generation ends up paying caregivers and facilities.

Some of the products in this book were designed specifically to solve that conflict. A hybrid life and long-term care policy, for example, can leave a death benefit if care is never needed and pay for care if it is, so the legacy and the care plan come out of the same bucket.

It Is Not Only Long-Term Care

This book gives special attention to long-term care because it is the largest and most common health-related risk in retirement. But living benefits also address other health events:

- **Terminal illness.** A diagnosis with a life expectancy of 24 months or less (some policies use 12 months) can allow early access to life insurance. The family can use the money for treatment, for comfort, or simply to spend meaningful time together without financial fear.
- **Critical illness.** A heart attack, stroke, invasive cancer, major organ transplant, end-stage kidney failure, or another serious diagnosis often brings sudden costs: deductibles and copays, travel to specialists, time away from work, home modifications. Critical illness riders can provide a lump sum at the time of diagnosis, even if the person recovers.
- **Chronic illness.** Being unable to perform two of the six activities of daily living, or suffering a severe cognitive impairment, can trigger benefits from a chronic illness rider, even if the person could live for many more years.

For people still working in their 50s and early 60s, critical illness is especially important. A serious diagnosis at 55 can end a career years early, derail retirement savings, and force an early start to Social Security at a reduced amount.

Putting a Number on Your Risk

You cannot predict whether you will need care. You can estimate what it would cost if you did. Here is a simple exercise to do with your spouse or advisor:

1. **Look up care costs where you live.** Use a cost-of-care survey for your state or city. Note the cost of in-home care, assisted living and a nursing home.
2. **Pick a planning period.** Many planners use three years for a woman and two years for a man, based on national averages, but a family history of dementia or long-lived relatives may call for five years or more.
3. **Add inflation.** If you are 55 now and care might begin at 80, costs will likely be much higher than today. At 3% inflation, today's costs roughly double in 24 years.
4. **Subtract what you could comfortably pay from income.** Social Security, pensions and annuity income may cover part of the cost.
5. **What remains is your care funding gap.** That is the amount that would have to come from savings, family, or insurance.

For many middle-class families, this exercise produces a gap of \$250,000 to \$600,000 or more in future dollars. Seeing that number on paper is often the moment the conversation changes from “I’ll deal with it if it happens” to “What are my options?”

PIVOT POINT

You do not have to insure the whole risk. Many families insure part of the gap, perhaps two or three years of care, and plan to cover the rest from income and savings.

The Options Ahead

There are several ways to fund a care or illness gap with insurance products. In the chapters that follow, we will walk through each:

Product	Main living benefit	Best suited for
Term life with living benefits	Accelerated benefits for terminal, chronic and critical illness	Working families in their 50s and early 60s who need affordable protection
Whole life with riders	Accelerated benefits plus guaranteed cash value	Conservative buyers who want guarantees and lifetime coverage
Indexed universal life (IUL)	Accelerated benefits plus cash value with index-linked growth	Buyers who want flexible premiums, growth potential and tax-free policy loans
Hybrid life + long-term care	Monthly LTC benefits, often with extension of benefits beyond the death benefit	People who want dedicated care coverage without “use it or lose it”
Annuities with health riders	Income doublers, confinement waivers, LTC multipliers	Retirees in their 60s to 80s with savings to reposition, including those with health issues

Before we look at the products, we need a shared vocabulary. The next chapter is your plain-English toolkit.

Quick Actions

- ▶ Model your withdrawals with \$80,000 to \$130,000 a year of care costs added for three years. What withdrawal rate does that create?
- ▶ Identify which account you would draw on first for care, and what that draw would do to your taxable income and Medicare premiums two years later.
- ▶ Walk through the healthy spouse's income if the other spouse needed care — and again after one spouse passes.

CHAPTER 3

The Plain-English Toolkit: How Living Benefits Work

Insurance contracts are written by lawyers and actuaries, and it shows. The good news is that nearly every living benefit, no matter which company sells it, is built from the same handful of parts. Once you understand those parts, you can read almost any policy summary and know what you are looking at.

“A generation ago, life insurance paid only at death. Today most IULs include accelerated benefit riders that let a policyholder access part of the death benefit for a terminal, chronic, or critical illness.”

— Suba Narla, *The Private Bank Pivot*

The Three Triggers: Terminal, Chronic and Critical

Every living benefit starts with a **trigger**, the health event that allows benefits to be paid. There are three main triggers, plus long-term care, which we will treat separately.

Terminal Illness

A terminal illness trigger usually requires a physician to certify that the insured has a life expectancy of 24 months or less. Some policies use 12 months. When triggered, the policyholder can accelerate a portion, sometimes a large portion, of the death benefit.

Chronic Illness

A chronic illness trigger usually follows the federal definition used for long-term care. A licensed health care practitioner must certify that the insured either:

- Cannot perform at least **two of the six activities of daily living (ADLs)** without substantial help from another person, for a period expected to last at least 90 days, or
- Requires substantial supervision to protect their health and safety because of a **severe cognitive impairment**, such as Alzheimer’s disease or another form of dementia.

The six activities of daily living are:

Activity of daily living	What it means
Bathing	Washing oneself in a tub or shower, or by sponge bath
Dressing	Putting on and taking off clothing, including braces or artificial limbs
Eating	Feeding oneself (not preparing the food)
Toileting	Getting to and from the toilet and performing personal hygiene
Transferring	Moving in and out of a bed, chair or wheelchair
Continence	Maintaining control of bladder and bowel function

One important detail: some chronic illness riders require that the condition be **permanent**, meaning the insured is not expected to recover. Long-term care riders generally do not require permanence. That difference can matter a great deal, for example after a stroke from which a person partially recovers. We will return to this in Chapter 11.

Critical Illness

A critical illness trigger pays upon diagnosis of a specific, listed condition. Common covered conditions include:

- Heart attack (myocardial infarction)
- Stroke
- Invasive cancer (often excluding early-stage skin cancers)
- Major organ transplant
- End-stage renal (kidney) failure
- ALS (Lou Gehrig's disease)
- Paralysis
- Blindness
- Major burns
- Coronary artery bypass surgery

Each policy defines each condition precisely, and those definitions matter. A “heart attack” in a policy may require specific test results and damage to heart muscle, for example. Always read the definitions.

Long-Term Care Benefits

A long-term care (LTC) benefit uses the same ADL and cognitive impairment tests as a chronic illness trigger, but it is designed to pay for care over time, usually as a monthly benefit. LTC riders on life insurance and annuities are often built to meet the federal standards in Section 7702B of the Internal Revenue Code, which is the same section that governs traditional tax-qualified long-term care insurance. That qualification brings valuable tax protections, which we cover in Chapter 9.

PIVOT POINT

“Chronic illness rider” and “long-term care rider” sound alike, but they are often built differently, taxed under different sections of the tax code, and paid out in different ways. Always ask which one you are buying.

How the Money Is Paid: Four Common Methods

When you accelerate a death benefit, the insurance company is paying you money early that it expected to pay later. The company needs a way to account for that. There are four common methods, and they make a big difference in how much you actually receive.

Method 1: The Discount Method

With the discount method, the company pays you the present value of the part of the death benefit you accelerate. The discount depends on your life expectancy at the time of the claim, interest rates, and the company’s formula. The shorter your life expectancy, the smaller the discount.

For example, a person with a \$300,000 policy who is chronically ill and expected to live many more years might be offered something like \$120,000 to \$180,000 to give up the full \$300,000 death benefit. A person with a terminal diagnosis and months to live might receive much closer to the full amount. The actual figure depends on the company and the circumstances at the time of claim.

The advantage: these riders are often included at no upfront cost. You pay only if and when you use them.

The drawback: you do not know in advance exactly how much you will receive.

Method 2: The Lien Method

With the lien method, the company advances benefits to you as a loan against the death benefit, often with interest. At death, the loan and interest are subtracted from what your beneficiaries receive. This method is less common today but still appears in some products.

Method 3: Dollar-for-Dollar

With the dollar-for-dollar method, each dollar you receive reduces the death benefit by exactly one dollar. If you accelerate \$100,000 from a \$300,000 policy, your beneficiaries receive \$200,000 (less any loans). This method is most common on long-term care riders and on some chronic illness riders that have an explicit charge.

The advantage: you know exactly what you will receive.

The drawback: you usually pay for this certainty with an explicit rider charge, either an added premium or a monthly deduction from the policy's cash value.

Method 4: Extension of Benefits

Some long-term care riders include an **extension of benefits** feature. After the death benefit has been fully used for care, the rider continues paying monthly LTC benefits for an additional period, often two to four more years, or sometimes for life. In effect, the policy can pay out far more than its face amount if care lasts a long time. This feature is a hallmark of many hybrid life and LTC policies (Chapter 7).

How Much and How Often

Maximum Monthly Benefit

Long-term care and chronic illness riders usually limit how much you can receive each month or year. A common design pays a percentage of the death benefit each month, often 2% or 4%. On a \$250,000 policy, a 2% monthly benefit is \$5,000 a month, which uses up the death benefit in about 50 months; a 4% monthly benefit is \$10,000 a month, which uses it up in about 25 months.

Indemnity Versus Reimbursement

- **Indemnity (cash) benefits** pay the full monthly benefit once you qualify, whatever your actual care costs. You can use the money however you wish, including to pay a family member for care.
- **Reimbursement benefits** pay your actual qualified care expenses up to the monthly maximum. You submit receipts or the provider bills the company. Family caregivers are often excluded.

Indemnity benefits are more flexible. Reimbursement benefits may cost less or stretch the benefit further. Neither is automatically better, but you should know which you are buying.

Elimination Period

The **elimination period** is a waiting period, often 90 days, between the time you qualify and the time benefits begin. It works like a deductible measured in time. Some policies count calendar days, others count only days on which you received paid care. Some have a zero-day elimination period for home care.

Benefit Period or Benefit Pool

The **benefit period** describes how long benefits can last, such as two, four, or six years, or an unlimited period with some extension riders. Many policies express this as a total **benefit pool**, a dollar amount you can draw from until it is exhausted. If you use less than the maximum each month, the pool lasts longer.

Inflation Protection

Care costs rise over time. An inflation rider increases your benefit, often by 3% or 5% compounded each year. For buyers in their 50s, inflation protection is especially important because care may be 20 or 30 years away. For buyers in their 70s, it may matter less. Inflation protection adds cost, but a benefit that does not grow may buy much less care when you finally need it.

Who Certifies a Claim

Nearly every living benefit requires certification from a **licensed health care practitioner**, such as a physician, registered nurse, or licensed social worker. For long-term care and chronic illness benefits, the company usually requires a **plan of care** and may require recertification every 12 months. The company may also have the insured examined by a practitioner of its own choosing.

A Quick Reference

Term	Plain-English meaning
Accelerated death benefit (ADB)	Receiving part of your life insurance while alive
Trigger	The health event that qualifies you for benefits
ADLs	Six basic self-care activities: bathing, dressing, eating, toileting, transferring, continence

Term	Plain-English meaning
Elimination period	Waiting period before benefits begin
Benefit pool	Total dollars available for care
Indemnity	You receive the full benefit amount in cash once qualified
Reimbursement	You are repaid for actual care costs up to a limit
Extension of benefits	Care benefits that continue after the death benefit is used up
Residual death benefit	A minimum death benefit that remains even if you use all your care benefits

With this toolkit in hand, we can now look at each family of products, beginning with the most affordable: term life insurance with living benefits.

Quick Actions

- ▶ For each policy you own, ask which triggers are covered: terminal, chronic, critical, and long-term care.
- ▶ Ask how benefits are paid — discount, lien, dollar-for-dollar, or extension of benefits — and request a sample claim calculation.
- ▶ Check whether the chronic illness definition requires a permanent condition, and whether benefits are indemnity or reimbursement.
- ▶ Write down the elimination period and the maximum monthly benefit for every policy in one place.

CHAPTER 4

Term Life Insurance With Living Benefits

Term life insurance is the simplest and least expensive form of life insurance. You pay a premium for a set number of years, the “term,” usually 10, 15, 20 or 30 years. If you die during that term, your beneficiaries receive the death benefit. If you outlive the term, the coverage ends.

“Insurance consistently converts an unpredictable, portfolio-threatening risk into a predictable cost.”

— Suba Narla, *The Wealth Pivot*

For decades, term insurance offered nothing while you were alive. That has changed. Many term policies today include accelerated benefit riders, and some make living benefits a centerpiece of the product. For working families in their 50s and early 60s, a term policy with strong living benefits can be one of the most cost-effective ways to protect income, savings and retirement plans against a serious illness.

How Living Benefits Work on Term Policies

Most term policies with living benefits include some combination of terminal, chronic and critical illness riders, usually using the **discount method** described in Chapter 3. Because the discount method charges nothing up front, many of these riders are built into the policy at no added premium. You pay only if you use them, through a reduction in the amount you receive compared with the full death benefit.

Typical features include:

- **Terminal illness:** access to a large share of the death benefit, sometimes up to the full amount subject to a cap, when life expectancy is 12 or 24 months or less.
- **Chronic illness:** access to part of the death benefit, often in lump sums or annual payments, when two of six ADLs cannot be performed or there is a severe cognitive impairment.
- **Critical illness:** access to part of the death benefit upon diagnosis of a covered condition such as heart attack, stroke, or invasive cancer.

Each company sets its own maximums, per-claim limits and minimum remaining death benefit. Some also add administrative fees per claim.

PIVOT POINT

On a term policy, the living benefit is only as good as the term. When the term ends, the living benefits end with it. Choose a term long enough to carry you into your 70s, or make sure the policy can be converted.

Why Term With Living Benefits Fits People in Their 50s

In your 50s, your biggest financial asset is often your ability to earn income over the next 10 to 15 years. A critical illness at 55 can:

- End your career years earlier than planned.
- Stop your 401(k) contributions and employer match.
- Force you to draw on retirement savings early, possibly with penalties if you are under 59½.
- Push you to start Social Security early at a permanently reduced amount.

- Delay or cancel the Roth conversions you planned, as described in *The Tax-Free Pivot*.

A term policy with living benefits can provide a lump sum at the moment your income is most vulnerable, protecting the rest of your plan. And if nothing happens, the policy still protects your family if you die during the term.

Conversion: The Hidden Superpower of Term

Most term policies include a **conversion privilege**. This lets you exchange all or part of your term coverage for a permanent policy (whole life, universal life, or indexed universal life) from the same company **without new medical underwriting**, as long as you convert before a deadline, often before a certain age or before the end of a certain number of policy years.

Why does this matter for living benefits? Because health changes. If you buy a 20-year term policy at 52 and are diagnosed with a heart condition at 64, you may be unable to buy new coverage at a reasonable price, or at all. But if your term policy is still convertible, you can convert to a permanent policy, which may include lifetime living benefits, based on the health rating you had when you first bought the term policy.

Questions to ask about conversion:

1. Until what age or policy year can I convert?
2. Which permanent products can I convert into? Do they include living benefit riders?
3. Can I convert part of the coverage and keep the rest as term?
4. Is there a conversion credit that reduces the first-year premium of the new policy?

Return of Premium Term

Some companies offer **return of premium (ROP) term**. If you outlive the term, the company refunds the premiums you paid (sometimes excluding rider costs). ROP term costs significantly more than regular term, but some buyers like the idea that the money comes back if they never have a claim. When comparing, consider what the extra premium could earn if invested elsewhere.

What Term Living Benefits Do Not Do Well

Term policies with living benefits are excellent for protecting against illness during your working years. They are less suited for:

- **Long-term care in your 80s and 90s.** By then, the term has usually expired. This is the age range when care needs are most common.
- **Predictable care funding.** Because most term living benefits use the discount method, you will not know until the time of claim how much you can receive.
- **Building cash value.** Term has no cash value to borrow against or use for retirement income.

For those goals, you will want to look at the permanent products in the following chapters.

A HYPOTHETICAL ILLUSTRATION — CHAPTER 4**Maria, 54 — The Critical Illness Claim That Spared Her 401(k)**

Consider Maria, a hypothetical 54-year-old office manager and single mother of a college student. She earns \$85,000 a year and has \$210,000 in her 401(k). She buys a 20-year, \$500,000 term policy that includes terminal, chronic and critical illness riders at no added premium.

At 59, Maria is diagnosed with invasive breast cancer. She takes several months off for treatment. Her policy's critical illness rider allows her to accelerate a portion of her death benefit. Because she is expected to recover, the discount is significant, and she receives a lump sum well below the face amount she gives up. The money covers her deductibles, her lost income, and her daughter's tuition for the year, and she does not touch her 401(k).

Maria recovers and returns to work. Her remaining death benefit continues. At 66, before her conversion deadline, she converts part of her remaining coverage to a permanent policy with a chronic illness rider, even though her cancer history would have made new coverage difficult to obtain.

This illustration is hypothetical and simplified. Actual benefit amounts depend on the policy, the company, the insured's life expectancy and health at the time of claim, and interest rates.

Questions to Ask Before Buying Term With Living Benefits

- Which living benefit riders are included, and is there any added premium?
- What is the maximum I can accelerate for each trigger, both as a percentage and in dollars?
- Does the chronic illness rider require a permanent condition?

- Which critical illnesses are covered, and how are they defined?
- How is the discount calculated, and is there an administrative fee per claim?
- Are the riders available in my state?
- What are the conversion deadlines and options?

Term life with living benefits is a strong starting point. For lifetime protection with guarantees, the next step is whole life.

CHAPTER 5

Whole Life Insurance and Its Living Benefit Riders

Whole life insurance is the oldest form of permanent life insurance and the most guaranteed. As long as you pay the required premiums, the policy stays in force for your entire life, the premium does not increase, and the cash value grows according to a guaranteed schedule. Many whole life policies issued by mutual insurance companies also pay **dividends**, which are not guaranteed but have been paid consistently by many established companies for decades.

“Whole life offers the most guarantees and the least flexibility...”

— Suba Narla, *The Private Bank Pivot*

For people who value certainty above all else, whole life is attractive. And because it lasts for life, the living benefits attached to it are available at the ages when they are most likely to be needed.

The Three Parts of a Whole Life Policy

1. **The guaranteed death benefit.** The face amount paid to beneficiaries at death, as long as premiums are paid and there are no outstanding loans.
2. **The guaranteed cash value.** A savings component that grows each year according to the contract. You can borrow against it, surrender for it, or use it to pay premiums.

3. **Dividends (on participating policies).** Money the company may return to policyholders when its experience is better than expected. Dividends can be taken in cash, used to reduce premiums, left to accumulate interest, or used to buy **paid-up additions**, small amounts of extra paid-up insurance that increase both the death benefit and the cash value.

Living Benefit Riders on Whole Life

Whole life policies can carry the same kinds of accelerated benefit riders as term policies, often with more generous limits and with the advantage of lasting for life. Common options include:

- **Terminal illness acceleration**, frequently built in.
- **Chronic illness acceleration**, sometimes built in using the discount method and sometimes offered as a paid rider using the dollar-for-dollar method.
- **Critical illness acceleration**, offered by some companies.
- **Long-term care riders**, offered by some companies, often qualified under Section 7702B and paid as a monthly benefit.

The Cash Value as a Living Benefit

Apart from any riders, the cash value itself is a living benefit. It is money you can reach while alive, for any reason:

- **Policy loans.** You can borrow against the cash value, usually without credit checks or a repayment schedule. Unpaid loans and interest reduce the death benefit. Loans from a policy that is not a modified endowment contract (MEC) are generally not taxable while the policy stays in force.
- **Dividend withdrawals.** Dividends can often be taken in cash.

- **Partial surrenders.** Some policies allow you to surrender paid-up additions for cash.
- **Premium flexibility in hard times.** If you become ill and cannot pay premiums, dividends or cash value can often be used to pay them, keeping the coverage alive.

The Waiver of Premium Rider

The **waiver of premium** rider deserves special mention. If you become totally disabled, as defined in the policy, the company pays your premiums for you while you remain disabled. The policy continues to build cash value as if you were still paying. For people in their 50s who are still working, this rider can keep a policy alive through exactly the kind of illness that would otherwise force them to drop it. Waiver of premium riders usually must be purchased before a certain age and often end at 65.

PIVOT POINT

With whole life, the cash value is a living benefit in its own right. It is money you can reach for any reason, including an illness that no rider covers.

Paid-Up Policies and “Single Premium” Whole Life

Some people prefer to pay for whole life quickly, over 10 years, 20 years, or to age 65, rather than for life. These **limited-pay** designs cost more per year but leave the policy fully paid by retirement.

At the other extreme, a **single premium whole life** policy is funded with one deposit. Several products designed for long-term care planning work this way: a person moves a lump sum, often from savings, a CD, or an old life insurance policy through

a 1035 exchange, into a single premium policy that includes a death benefit and long-term care benefits. We cover these designs in Chapter 7 because they function as hybrid policies.

A caution: policies funded too quickly can become **modified endowment contracts (MECs)** under tax law. A MEC keeps its tax-free death benefit, but loans and withdrawals are taxed less favorably, generally as gains first, and may face a 10% penalty before age 59½. For people using a policy mainly as a death benefit and care pool, MEC status may not matter much. For people who plan to borrow from the cash value, it matters a great deal.

Strengths and Trade-Offs

Strengths of whole life	Trade-offs of whole life
Guaranteed premiums that never increase	Higher premiums than term for the same death benefit
Guaranteed cash value growth	Slower early cash value growth than some alternatives
Lifetime coverage, so living benefits last for life	Less flexibility to change premiums
Potential dividends from mutual companies	Dividends are not guaranteed
Stable, predictable, easy to understand	Surrendering early can mean receiving back less than you paid

Who Tends to Choose Whole Life

Whole life is often a good fit for:

- Conservative savers who value guarantees and do not want market-linked products.
- People who want a guaranteed legacy for children, grandchildren, or charity, with the option to use it for care.

- Business owners using life insurance for buy-sell agreements or key-person coverage who also want living benefits.
- Parents or grandparents who want to buy lifetime coverage for a child or grandchild while premiums are low.

A HYPOTHETICAL ILLUSTRATION — CHAPTER 5

Robert and Linda, 58 and 56 — Care at Home From a Paid-Up Policy

Consider Robert and Linda, a hypothetical couple aged 58 and 56. Robert owns a small landscaping business. They buy a 20-pay whole life policy on Robert with a \$400,000 death benefit and a chronic illness rider, and they use dividends to purchase paid-up additions.

By 78, the policy is fully paid, and the dividends have steadily increased both the death benefit and the cash value. At 81, Robert suffers a stroke and can no longer bathe or dress himself without help. His physician certifies a chronic illness. The rider allows him to accelerate part of his death benefit to pay for a home health aide, so Linda can keep him at home. Whatever remains of the death benefit will go to Linda when Robert passes.

This illustration is hypothetical. Dividends are not guaranteed, and actual rider benefits depend on the policy and circumstances at the time of claim.

Questions to Ask Before Buying Whole Life With Living Benefits

- Is the company a mutual company that pays dividends? What is its dividend history?
- Which living benefit riders are included, and what do they cost?
- Is the chronic illness benefit paid by discount, lien, or dollar-for-dollar?

- Is there a long-term care rider qualified under Section 7702B?
- How will my premium schedule affect MEC status?
- Is a waiver of premium rider available at my age?

Whole life offers guarantees. For people who want more flexibility and the potential for higher cash value growth, indexed universal life is the next option to consider.

CHAPTER 6

Indexed Universal Life (IUL) With Living Benefits

Indexed universal life (IUL) insurance combines permanent life insurance protection with a cash value that can grow based on the performance of a stock market index, such as the S&P 500, while protecting the cash value from index losses. For many buyers in their 50s and early 60s, an IUL with strong living benefit riders offers a combination that no other single product does: a death benefit, growth potential, access to cash through policy loans, and protection against chronic, critical and terminal illness.

“For many middle-income families, these riders are now as important as the death benefit or the cash value, because they provide a measure of long-term-care protection without a separate long-term-care policy.”

— Suba Narla, *The Private Bank Pivot*

(IUL is also the subject of a separate, in-depth book in this series. Here, we focus on how its living benefits work.)

How IUL Cash Value Works in Brief

When you pay a premium into an IUL, the company deducts the cost of insurance and policy charges, and the rest goes into the cash value. You choose how the cash value is credited:

- A **fixed account**, which earns a declared interest rate.
- One or more **indexed accounts**, which earn interest based on the change in a market index over a period, usually one year.

Indexed accounts have two key protections and limits:

- A **floor**, usually 0%, so that when the index falls, your cash value does not lose value because of the index. (Policy charges are still deducted.)
- A **cap** or **participation rate**, which limits how much of the index gain is credited. For example, with a 10% cap, if the index rises 18%, you are credited 10%.

The money is not invested directly in the stock market. The index is only used to calculate the interest credited.

PIVOT POINT

IUL is not a stock market investment. It is life insurance whose cash value earns interest linked to an index, with a floor that protects against index losses and a cap that limits gains.

Living Benefit Riders on IUL

Most major IUL products today offer a menu of accelerated benefit riders. Depending on the company and the state, these may include:

Rider	What it does	Typical cost structure
Terminal illness	Accelerates a large portion of the death benefit when life expectancy is 12 or 24 months or less	Usually built in; discount method
Chronic illness	Accelerates part of the death benefit when 2 of 6 ADLs cannot be performed or there is severe cognitive impairment	Built in (discount) or paid (dollar-for-dollar)
Critical illness	Accelerates part of the death benefit upon diagnosis of a covered condition	Usually built in; discount method

Rider	What it does	Typical cost structure
Critical injury	Accelerates benefits for serious injuries such as severe burns, coma, or traumatic brain injury	Offered by some companies
Long-term care	Pays monthly LTC benefits, often qualified under Section 7702B	Paid rider with monthly charge

The most important thing to understand is the difference between **built-in, discount-method riders** and **paid, dollar-for-dollar LTC riders**. The built-in riders cost nothing until you use them, but the amount you receive is uncertain and may be substantially below the death benefit you give up. A paid LTC rider has an ongoing cost, but it delivers a predictable monthly benefit and often more favorable tax treatment.

Why IUL Living Benefits Pair Well With Retirement Income

One of the main reasons people buy an IUL is to create a source of **tax-free retirement income** through policy loans. In a well-designed, properly funded policy that is not a MEC, loans can be taken from the cash value without being counted as taxable income, as long as the policy stays in force until death.

Living benefits fit naturally into this strategy. Consider the three ways such a policy can end:

1. **You live a healthy life.** You take tax-free policy loans for supplemental retirement income, and at death your beneficiaries receive the remaining death benefit, income-tax-free.
2. **You become chronically ill.** You use the chronic illness or LTC rider to pay for care, reducing or pausing your income loans.

3. **You die unexpectedly.** Your beneficiaries receive the death benefit, income-tax-free.

In each case, the same premium dollars have a job to do. This is exactly the “money that works either way” idea from Chapter 1.

A caution: if you have taken large loans, less death benefit may remain to accelerate for care. Planning how loans and living benefits interact is essential.

FROM *The Private Bank Pivot* — CASE EXAMPLE

Harold, 74 — When the Living Benefit Mattered Most

Harold bought an IUL at 61 mainly for legacy purposes, with a chronic-illness rider included at no upfront cost. At 74, after a stroke, he could no longer bathe or dress without help. His physician certified that he was chronically ill, and Harold began receiving monthly accelerated benefits to pay for in-home care.

Because the benefits qualified under Section 101(g) and stayed within the applicable limits, they were received income-tax-free. The payments reduced the eventual death benefit, but they let Harold stay at home and preserved his other savings for his wife.

Starting point	Legacy policy with a chronic-illness rider; no long-term-care insurance
Strategy	Accelerated benefits after a qualifying chronic illness
Result	Tax-free care funding; savings preserved for his spouse

Stand-Alone LTC or IUL Living Benefits? A Side-by-Side View

Readers of *The Private Bank Pivot* often ask whether an IUL’s chronic-illness rider can take the place of a stand-alone long-term care policy. The honest answer is that they are built for

different jobs. This comparison, adapted from that book, shows the trade-offs.

Feature	Stand-alone LTC policy	IUL chronic-illness rider
Primary purpose	Paying for care	Death benefit, cash value and tax-free income, with care as a backup
Cost	Separate premium for LTC only	Often no upfront rider cost; charge or discount applies only if used
Premium increases	Possible, and common on older policies	No LTC rate increases; IUL charges can change within contract limits
If care is never needed	Premiums generally lost (“use it or lose it”)	Full death benefit goes to heirs, and cash value remains available
Benefit size	Defined benefit pool, often with inflation growth	Portion of the death benefit; usually no inflation growth
Qualifying for benefits	Two of six ADLs or cognitive impairment; elimination period	Similar test; some riders require the condition to be permanent
Effect on death benefit	None	Each dollar received reduces the death benefit
Tax treatment	Qualifying benefits generally tax-free	Qualifying benefits generally tax-free under IRC §101(g), within limits
Best fit	Those who want the most care coverage per premium dollar	Those who want care protection without paying for a policy they may never use

FROM THE PIVOT SERIES · The Private Bank Pivot

Be Your Own Banker with Fixed Index Universal Life

How to Choose by Age

- ◆ **Ages 45–55:** Stand-alone LTC premiums are at their lowest and health is usually best, but premiums may be paid for decades and can rise. This is also the ideal age to buy an IUL with living benefit riders; many families choose the IUL and add a stand-alone policy only if they want larger, inflation-protected care benefits.
- ◆ **Ages 55–65:** The most common window for LTC decisions. Compare a stand-alone policy, a hybrid life/LTC policy, and an IUL with chronic-illness riders side by side and look closely at inflation protection.
- ◆ **Ages 65 and older:** Stand-alone premiums become steep and declines more common. An existing IUL's living benefit riders may be the most practical protection available, and it is important to understand exactly how much of the death benefit can be accelerated and how.

Designing an IUL for Living Benefits

An IUL designed mainly for maximum cash value (often called “maximum funding”) is structured differently from one designed mainly for death benefit and living benefits. Some design questions to discuss with your advisor:

- **Death benefit option.** A level death benefit (Option A) typically builds cash value more efficiently. An increasing death benefit (Option B) adds the cash value to the face amount, creating a larger total benefit, which can increase the amount available for acceleration.
- **Face amount.** Living benefits are generally based on the death benefit. A policy with a minimal face amount built for cash value may have a small pool available for chronic illness or LTC.

- **Funding level.** Underfunded IUL policies can lapse in later years when the cost of insurance rises. A lapsed policy loses its living benefits too. Fund the policy adequately, and review it every year or two.
- **Riders chosen at issue.** Many riders, especially paid LTC riders, must be added when the policy is issued. They cannot always be added later.

PIVOT POINT

An IUL built only for cash value may leave little room for living benefits. An IUL built only for death benefit may leave little room for retirement income. The best designs balance both goals on purpose.

Risks and Trade-Offs

IUL is more complex than term or whole life. Key risks include:

- **Non-guaranteed elements.** Caps, participation rates and some policy charges can change. Illustrations are projections, not guarantees.
- **Illustrated rates.** An illustration that assumes an unrealistically high crediting rate can make a policy look better than it will perform. Ask to see illustrations at lower rates as well.
- **Lapse risk.** Policies that are underfunded, or that carry large loans, can lapse, potentially creating a taxable event.
- **Loan costs.** Policy loans accrue interest. Understand whether your policy uses fixed loans, variable loans, or participating (indexed) loans, and how each affects your cash value.

A HYPOTHETICAL ILLUSTRATION — CHAPTER 6

David, 52 — Retirement Income First, Care Benefits Later

Consider David, a hypothetical 52-year-old engineer in good health. He has maximized his 401(k) and wants additional tax-advantaged savings plus protection against a long illness. He buys an IUL with a \$750,000 initial death benefit, funds it with \$18,000 a year for 15 years, and includes built-in chronic, critical and terminal illness riders.

From 67 to 80, David takes modest tax-free policy loans to supplement his retirement income and to help pay the taxes on the Roth conversions he completed in his 60s, keeping enough cash value in the policy to sustain it. At 83, he is diagnosed with Parkinson's disease, and three years later he can no longer dress or bathe himself without help. His chronic illness rider allows him to accelerate a portion of his remaining death benefit to pay for in-home care. After he passes, the remaining death benefit goes to his children.

This illustration is hypothetical and does not represent any specific product. IUL crediting rates, caps, and charges are not guaranteed, and actual results will vary.

Questions to Ask Before Buying an IUL With Living Benefits

- Which living benefit riders are built in, and which cost extra?
- How are chronic illness benefits calculated, and is the condition required to be permanent?
- Is there a true 7702B long-term care rider available on this policy?
- How do outstanding policy loans affect the amount available for acceleration?
- What happens if I use part of my death benefit for care? Does the cost of insurance adjust?

- Show me the illustration at a lower crediting rate. Will the policy still stay in force?
- What are the current caps and participation rates, and what are the guaranteed minimums?

IUL and whole life can both serve as a foundation for care planning. But for people whose primary concern is long-term care itself, hybrid life and long-term care policies were designed specifically for the job. They are the subject of the next chapter.

Hybrid Life and Long-Term Care Policies

If traditional long-term care insurance has a “use it or lose it” problem, hybrid life and long-term care policies were designed to solve it. A hybrid policy, also called a **linked-benefit** or **asset-based** policy, combines a life insurance death benefit with a dedicated long-term care benefit in one contract. If you need care, the policy pays for it. If you never need care, your beneficiaries receive a death benefit. And many hybrid policies let you get your money back if you change your mind.

“A hybrid life/LTC policy, purchased at 60 before either had any health complications, rounded out the plan’s tail-risk coverage.”

— Suba Narla, *The Wealth Pivot*

For many families in their late 50s through early 70s, hybrid policies have become the most popular way to plan for long-term care.

How a Hybrid Policy Works

A typical hybrid policy has three layers of benefits:

1. **Acceleration of the death benefit.** When you qualify for care, the policy pays a monthly LTC benefit that draws down the death benefit, usually over a set period such as 24 or 36 months.
2. **Extension of benefits.** After the death benefit is used up, an extension rider continues paying monthly LTC benefits for an additional period, commonly two to four more years, and

in some designs for life.

3. **Residual death benefit.** Even if you use all of your LTC benefits, many policies still pay a small minimum death benefit, often 5% to 10% of the original face amount.

A Simplified Example of the Structure

Imagine a hypothetical hybrid policy with a \$150,000 death benefit, a 2% monthly acceleration rate and a four-year extension of benefits:

Stage	Monthly LTC benefit	Duration	Total
Acceleration of death benefit	\$3,000	50 months	\$150,000
Extension of benefits	\$3,000	48 months	\$144,000
Total LTC benefit pool	—	98 months	\$294,000
Residual death benefit (if all care benefits are used)	—	—	\$7,500 (5%)

With 3% compound inflation protection, the monthly benefit and the total pool would grow each year before a claim begins. For someone who buys at 60 and needs care at 82, that can make a large difference.

This structure is simplified for illustration and does not represent a specific product. Actual benefits, rates and features vary by company, age, health and state.

PIVOT POINT

A hybrid policy turns one pool of money into three possible outcomes: a care benefit that may be several times your premium, a death benefit if you never need care, or, in many designs, a return of premium if you change your mind.

How Hybrid Policies Are Paid For

Hybrid policies are flexible in how they are funded:

- **Single premium.** One lump-sum deposit, often from savings, a CD, a money market account, or an existing life insurance policy or annuity through a 1035 exchange.
- **Limited pay.** Premiums paid over 5, 10, or 20 years, or to age 65.
- **Lifetime pay.** Ongoing premiums for life, which lowers the annual cost.

Most hybrid policies have **guaranteed premiums**. Unlike many traditional long-term care policies, the company cannot raise the premium after issue. For people who have watched friends endure repeated rate increases on older LTC policies, that guarantee alone is a major attraction.

Return of Premium and Surrender Value

Many hybrid policies include a **return of premium** feature. If you decide you no longer want the policy, you can surrender it and receive back some or all of what you paid, according to a schedule in the contract. Some policies return 100% of premium at any time; others phase in the return over several years or return a lesser percentage. This feature gives families peace of mind: the money is not locked away forever.

Understand the trade-off: policies with the richest return-of-premium features may offer lower LTC benefits for the same premium, and vice versa.

Tax Qualification

Many hybrid policies are designed so that the long-term care benefits are **tax-qualified under Section 7702B** of the Internal Revenue Code. This means LTC benefits are generally received income-tax-free, within federal limits (see Chapter 9). Qualified hybrid policies also benefit from the Pension Protection Act of 2006, which allows certain 1035 exchanges into qualified long-term care coverage without creating a taxable event.

The 1035 Exchange: Giving Old Money a New Job

Many people in their 60s and 70s own an old life insurance policy or annuity that no longer fits their plan. Perhaps the children are grown and the death benefit is no longer needed, or an old annuity has large deferred gains that would be taxed if cashed in.

A **1035 exchange**, named after Section 1035 of the tax code, allows you to move the value of one policy into another without paying tax on the gain, as long as the rules are followed. With proper structuring, an old life policy or annuity can be exchanged into a hybrid life and LTC policy. The deferred gain does not disappear, but because qualified LTC benefits are generally income-tax-free, the money may never be taxed if it is used for care.

This is one of the most powerful and underused strategies in retirement planning. An old annuity with \$60,000 of untaxed gain, for example, might be repositioned into a policy that provides a care pool several times its value.

Important points about 1035 exchanges:

- The exchange must be done directly between the insurance companies. If you cash out first and then buy a new policy, the gain is taxable.
- The owner and insured generally must stay the same.
- Surrender charges on the old contract may apply.
- Not every hybrid product accepts every type of 1035 exchange. Ask first.

Couples: Shared and Joint Coverage

Many hybrid policies can be written on two people, often spouses or partners. A **joint** or **shared care** design gives both insureds access to one combined LTC pool, with the death benefit paid at the second death. This can be more efficient than two separate policies, because it is unlikely that both spouses will need the maximum amount of care. Ask whether each insured has access to the entire pool, and how the death benefit is affected if one spouse uses a large portion.

Indemnity Versus Reimbursement in Hybrids

Hybrid policies come in both styles:

- **Indemnity (cash) designs** pay the full monthly benefit once you qualify. The money can be used for any purpose, including paying a family member.
- **Reimbursement designs** pay actual qualified care costs up to a monthly maximum.

If you expect a family member to provide much of your care, or you live in a rural area where formal caregivers are scarce, an indemnity design may serve you better.

Underwriting

Hybrid policies require health underwriting, including questions about cognitive health, mobility and medications. Many use simplified underwriting that relies on a phone interview and prescription and medical records rather than a medical exam. Conditions such as a recent stroke, a diagnosis of dementia, or the current need for help with daily activities usually make a person ineligible. This is why timing matters. Applying in your late 50s or early 60s, while healthy, gives you the most choice.

A HYPOTHETICAL ILLUSTRATION — CHAPTER 7

Sandra, 64 — Giving an Old Annuity a New Job

Consider Sandra, a hypothetical 64-year-old retired teacher. She is single, owns her home, and has \$450,000 in savings plus her pension. She also owns an old annuity worth \$110,000, of which \$45,000 is deferred gain. Sandra watched her mother spend five years in memory care, and her greatest fear is becoming a burden on her son.

Sandra uses a 1035 exchange to move the annuity into a single-premium hybrid life and LTC policy with an indemnity benefit, a four-year extension of benefits, and 3% compound inflation protection. The policy creates a death benefit for her son and a long-term care pool several times the size of her premium. Her premium is guaranteed never to increase, and the policy includes a return of premium feature.

If Sandra needs care, the benefits are designed to be received income-tax-free, and the \$45,000 gain in her old annuity may never be taxed. If she never needs care, her son receives the death benefit income-tax-free.

This illustration is hypothetical. Actual benefits depend on the company, the product, and Sandra's age and health at application. Consult a tax advisor about 1035 exchanges.

Questions to Ask Before Buying a Hybrid Policy

- Is the long-term care benefit qualified under Section 7702B?
- Is the benefit indemnity or reimbursement?
- What is the monthly benefit, and how long do acceleration and extension each last?
- Is inflation protection included, and is it simple or compound?
- Are premiums guaranteed?
- What is the return of premium schedule if I surrender?
- What is the residual death benefit if I use all care benefits?
- Will you accept a 1035 exchange from my existing policy or annuity?
- For couples, does each person have access to the full pool?

Hybrid policies are one powerful solution. For people who already own annuities, or who are older or have health issues that make life insurance difficult, annuities with health-related riders may offer another path. That is the subject of the next chapter.

CHAPTER 8

Annuities With Living Benefits

Most people think of annuities as products for income and protection, and they are. *The Protected Pivot* covered fixed and fixed index annuities in depth: how they protect principal from market losses, how they grow, and how they turn savings into income you cannot outlive. What many people do not realize is that annuities can also carry powerful health-related living benefits.

“An annuity decides how a dollar grows and pays out; the tax plan decides which bucket that dollar lives in and when the IRS gets its share.”

— Suba Narla, *The Protected Pivot*

For retirees in their 60s, 70s and even early 80s, and especially for those whose health makes life insurance difficult or expensive, annuity-based living benefits may be the most accessible way to add protection for care.

Why Annuities Can Be Easier to Qualify For

Life insurance and hybrid policies are priced on your health, so they require medical underwriting. Many annuity riders are not. Because the annuity's value comes from your own deposit, and the health benefits are usually tied to that value, many fixed index annuities with health-related income features are available with **little or no medical underwriting**. Some contracts have limited health questions or require that the owner not be confined to a nursing home at the time of purchase.

This makes annuities a natural option for people who:

- Have been declined for life insurance or hybrid coverage.
- Have health conditions that make life insurance very expensive.
- Are in their 70s or early 80s, when life insurance options narrow.
- Already have money in annuities, CDs or IRAs that they want to protect.

PIVOT POINT

If you have been told “no” by a life insurance underwriter, an annuity with a health-related rider may still be available to you.

Living Benefit One: The Income Doubler (Health-Enhanced Income)

Many fixed index annuities offer an optional **guaranteed lifetime withdrawal benefit (GLWB)** or income rider. This rider guarantees an annual income for life, calculated from an income account value and a payout percentage based on your age when income begins. The rider usually has an annual fee, often around 1% of the income account value, although some products build in income features at no separate charge.

Some income riders include a **health-enhanced income** feature, often called an **income doubler** or **LTC multiplier**. If the owner (or annuitant) later cannot perform two of the six activities of daily living, or in some contracts is confined to a nursing facility, the annual income increases, often to twice the normal amount, for a limited period (commonly up to five years) or until the account value is exhausted.

Typical conditions include:

- A waiting period after purchase, often one or two years, before the enhanced income can be used.
- An elimination period after the health event, often 90 days or longer.
- Certification by a licensed health care practitioner.
- Sometimes, confinement to a qualified care facility rather than home care.

How an Income Doubler Might Work

Situation	Annual lifetime income
Healthy, taking normal income	\$20,000
Qualifies for health-enhanced income (2 of 6 ADLs)	\$40,000 (doubled)
Health improves or enhancement period ends	Returns to \$20,000

Hypothetical figures for illustration. Actual payout rates, enhancement multiples, durations and conditions vary by product and state.

An income doubler is not a full long-term care policy. It usually pays a fixed amount rather than a benefit pool, and the doubled income may come largely from your own account value. But for someone who cannot qualify for other coverage, an extra \$20,000 or more a year during a care need can make a real difference, especially for a healthy spouse who must keep paying household bills.

FROM THE PIVOT SERIES · The Protected Pivot

Annuities, IRA & 401(k) Rollovers, Roth Conversions and Tax-Smart Retirement Strategies

Long-Term Care / Chronic Illness Riders

Some annuities offer a rider that doubles or triples the available withdrawal amount for a period of time (commonly up to 5 years) if the annuitant is certified as unable to perform a specified number of activities of daily living (ADLs) or diagnosed with a qualifying chronic illness, functioning as a partial, lower-cost alternative or supplement to standalone long-term care insurance. These riders generally offer less robust coverage than dedicated LTC insurance but can be a reasonable middle-ground option for buyers who want some LTC protection without purchasing a separate, often expensive, standalone LTC policy.

Key evaluation questions for any rider: What is the annual cost, and is it charged against the account value or the (often larger) benefit base? Is the roll-up/growth rate on the benefit base simple or compound, and for how many years does it apply? Can the rider be canceled later if it turns out not to be needed, and what happens to fees already paid?

Living Benefit Two: Nursing Home and Terminal Illness Waivers

Most fixed and fixed index annuities have **surrender charges** during the first several years. These charges apply if you withdraw more than the free withdrawal amount, which is often 10% of the account value each year.

Many annuities include **waivers** that remove surrender charges if a health event occurs:

- **Nursing home or confinement waiver.** If the owner is confined to a nursing home or hospital for a specified period, often 60 or 90 consecutive days, after the first contract year, surrender charges are waived.

- **Terminal illness waiver.** If the owner is diagnosed with a terminal illness, often with a life expectancy of 12 months or less, surrender charges are waived.
- **Some contracts add** waivers for inability to perform ADLs or for home health care.

These waivers are often included at no extra cost. They answer one of the most common worries about annuities: “What if I get sick and need my money?”

FROM THE PIVOT SERIES · The Protected Pivot

What the accumulation FIA contract typically includes

Health-related waivers: Many contracts waive surrender charges for nursing home confinement, terminal illness, or chronic illness after a waiting period.

Death benefit: In most contracts, beneficiaries receive the full accumulation value with surrender charges waived.

Living Benefit Three: Long-Term Care Annuities

A smaller group of annuities are designed specifically for long-term care. These are sometimes called **LTC annuities** or **annuity/LTC hybrids**. A typical design works like this:

1. You deposit a lump sum, often through a 1035 exchange from an existing non-qualified annuity.
2. The contract creates a long-term care benefit pool that is a multiple of your account value, such as two or three times.
3. If you need care, the policy first pays benefits from your own account value, then from the insurance company's funds for an extended period.
4. If you never need care, the account value remains yours and passes to your beneficiaries at death.

Qualified LTC annuities are built under Section 7702B, so benefits for qualified long-term care are generally income-tax-free, including the part that comes from gain in your annuity. Under the Pension Protection Act of 2006, the charges for the LTC coverage deducted from the annuity’s value are generally not treated as taxable distributions.

LTC annuities usually require some medical underwriting, although it is often lighter than for life-based hybrids. They also generally must be funded with **non-qualified money**, meaning money outside an IRA or 401(k). Qualified money generally cannot be used directly to fund them.

Living Benefit Four: Enhanced and Medically Underwritten Income

Two more tools deserve brief mention:

- **Enhanced death benefit riders.** Some annuities offer riders that pay beneficiaries more than the account value. These protect the legacy if a health event cuts life short.
- **Medically underwritten (impaired risk) income annuities.** If you have a serious health condition that shortens your life expectancy, some companies will pay a higher income on an immediate annuity. It sounds strange, but for someone with a serious illness who needs more income now, it can be very valuable.

Where Annuities Fit in a Living Benefits Plan

If you are...	Annuity tools to discuss
50 to 64, healthy	Annuities for protected growth (see The Protected Pivot); consider pairing with IUL or a hybrid for care
65 to 75, healthy	Fixed index annuities with income riders and health-enhanced income; LTC annuities with non-qualified funds

If you are...	Annuity tools to discuss
65 to 85, with health issues	Income riders with doublers that require little or no underwriting; confinement waivers
Any age, with an old annuity	1035 exchange into an LTC annuity or life-based hybrid

A HYPOTHETICAL ILLUSTRATION — CHAPTER 8

Frank and Joyce, 72 and 70 — Declined for Insurance, Covered by an Annuity

Consider Frank and Joyce, a hypothetical couple aged 72 and 70. Frank has type 2 diabetes and a history of heart problems, and he was declined for a hybrid life and LTC policy. They have \$300,000 in a traditional IRA and \$150,000 in CDs.

They roll \$200,000 of the IRA into a fixed index annuity with an income rider that includes a health-enhanced income feature. They begin taking lifetime income at 74. At 79, Frank can no longer transfer from bed to chair or bathe himself. After the waiting and elimination periods are met, their annual income from the annuity doubles for up to five years. The extra income helps pay for an in-home aide, so Joyce can care for Frank at home with help instead of alone.

Meanwhile, Joyce, who is healthy, uses a 1035 exchange of an old deferred annuity to purchase an LTC annuity on her own life, so that if she later needs care, she has a dedicated care pool.

This illustration is hypothetical. Income riders involve fees, and benefits depend on the specific contract, its conditions, and state availability.

“...in the years that matter most near retirement, predictability is often worth more than maximum upside.”

*— Suba Narla, **The Protected Pivot***

Questions to Ask Before Buying an Annuity for Living Benefits

- Does the income rider include a health-enhanced income feature? What triggers it?
- Is there a waiting period after purchase and an elimination period after the health event?
- Does the enhancement require nursing home confinement, or does home care qualify?
- How long does the enhanced income last, and what happens to the account value?
- What is the annual rider fee?
- What surrender charge waivers are included (nursing home, terminal illness, ADLs)?
- For an LTC annuity: what multiple of the account value is available for care, and must I use non-qualified money?

Annuities, life insurance and hybrids all come with tax advantages when living benefits are paid. Understanding those tax rules is the key to getting the most from every dollar. That is the subject of the next chapter.

CHAPTER 9

The Tax Advantages of Living Benefits

Taxes are the quiet partner in every retirement decision. As *The Tax-Free Pivot* showed, the difference between taxable and tax-free money can amount to hundreds of thousands of dollars over a retirement. Living benefits are no exception. When structured properly, living benefits can deliver money for care and illness **without income tax**, which means each dollar buys a full dollar of care.

“A guaranteed, tax-free paycheck for life does not add to taxable income, does not raise IRMAA surcharges, and does not make Social Security benefits taxable.”

— Suba Narla, *The Protected Pivot*

This chapter explains the main federal tax rules in plain English. Tax law is complex and changes over time, and state rules may differ. Use this chapter to understand the concepts, and confirm your specific situation with a qualified tax professional.

Rule One: Life Insurance Death Benefits Are Generally Income-Tax-Free

Under Section 101(a) of the Internal Revenue Code, death benefits paid to a beneficiary because of the insured’s death are generally excluded from the beneficiary’s income. This is the foundation of life insurance’s tax advantage. (Death benefits may still be included in the insured’s estate for estate tax purposes, depending on ownership.)

Rule Two: Accelerated Death Benefits Are Treated Like Death Benefits, Within Limits

Section 101(g) extends the tax-free treatment of death benefits to certain **accelerated death benefits** paid while the insured is alive:

- **Terminally ill insureds.** Amounts received by a person certified as terminally ill (generally a life expectancy of 24 months or less) are treated as paid by reason of death, and are generally excluded from income.
- **Chronically ill insureds.** Amounts received by a person certified as chronically ill (unable to perform two of six ADLs for at least 90 days, or with a severe cognitive impairment) can also be excluded, but **only within the same limits that apply to qualified long-term care insurance**. Generally, the payments must be for qualified long-term care costs, or, if paid on a per diem or indemnity basis, fall within the federal per diem limit.

Rule Three: Qualified Long-Term Care Benefits Are Tax-Free Within Limits

Section 7702B governs qualified long-term care insurance, including qualified LTC riders on life insurance and annuities. Benefits from a qualified contract are treated as amounts received for personal injuries and sickness, and are generally excluded from income:

- **Reimbursement benefits** are generally tax-free up to the actual cost of qualified long-term care services.
- **Per diem or indemnity benefits** are generally tax-free up to a daily limit set by the IRS each year, or up to actual costs if those are higher.

For 2026, the per diem limit is **\$430 per day**, which works out to about **\$156,950 per year**. (The 2025 limit was \$420 per day.) The limit is adjusted for inflation each year.

Year	Per diem limit per day	Approximate annual equivalent
2025	\$420	\$153,300
2026	\$430	\$156,950

Source: IRS Revenue Procedure 25-32 and prior annual inflation adjustments. Confirm current figures each year.

Most people’s benefits fall well within these limits. If you own several policies that together pay more than the limit, the excess may be taxable unless your actual care costs are higher.

Insurance companies report living benefit and LTC payments on **Form 1099-LTC**, and recipients generally report them on **IRS Form 8853**, which calculates whether any portion is taxable.

PIVOT POINT

Tax-free care dollars are more valuable than taxable IRA dollars. Paying \$80,000 of care from a qualified LTC benefit may save a family \$20,000 or more in income tax compared with withdrawing the same care money from a traditional IRA.

A Word About Critical Illness Benefits

The tax treatment of critical illness accelerations is less clear-cut than for terminal and chronic illness. A person who suffers a heart attack and recovers may not be terminally or chronically ill as defined by the tax code. Some companies structure their critical illness riders to fit within Section 101(g) in certain circumstances; others advise that some or all of the benefit may

be taxable. Ask the company how it reports critical illness payments, and ask your tax advisor how they would apply to you.

Rule Four: 1035 Exchanges and the Pension Protection Act

Section 1035 allows the tax-free exchange of one life insurance policy for another, a life policy for an annuity, and one annuity for another. The Pension Protection Act of 2006, effective for exchanges after 2009, expanded these rules so that life insurance and annuity contracts can be exchanged for qualified long-term care coverage, including qualified hybrid products, without triggering tax on the gain.

The same law provides that charges deducted from a life insurance or annuity contract’s value to pay for a qualified LTC rider are generally not treated as taxable distributions, although they reduce the contract’s cost basis.

Rule Five: Premium Deductions for Qualified LTC Coverage

Premiums for qualified long-term care insurance can count as medical expenses, up to an age-based limit. These premiums can be deducted only if you itemize and your total medical expenses exceed 7.5% of adjusted gross income, unless you are self-employed, in which case different rules may allow a deduction without that threshold. For 2026, the age-based limits per person are:

Age at end of tax year	2026 deductible premium limit
40 or under	\$500
41 to 50	\$930
51 to 60	\$1,860
61 to 70	\$4,960

Age at end of tax year	2026 deductible premium limit
71 and over	\$6,200

Source: IRS Revenue Procedure 25-32. Confirm current figures each year.

For most life-based hybrid policies, premiums are generally **not** deductible, because the premium pays primarily for life insurance and the LTC portion is not separately stated. Some products separately identify an LTC charge that may count. Ask the company.

Money in a **Health Savings Account (HSA)** can generally be used tax-free to pay qualified LTC premiums, up to the same age-based limits. For people in their 50s who have been building an HSA, this can be an efficient way to pay part of a qualified premium.

Rule Six: Loans From Life Insurance Are Generally Not Taxable

Loans from a life insurance policy that is not a modified endowment contract are generally not taxable as long as the policy remains in force. This is the basis for using IUL and whole life for tax-free retirement income (Chapter 6). Two cautions: if the policy lapses or is surrendered with a loan outstanding, the loan may become taxable, and loans from MECs are taxed differently.

How Living Benefits Fit With Your Other Tax Strategies

The ideas in the Pivot series are designed to work together:

- **Roth conversions** (*The Tax-Free Pivot*) move retirement money into a tax-free bucket. Roth withdrawals can pay for care without increasing taxable income, but using Roth

money for care also uses up one of your most valuable assets.

- **Protected annuities** (*The Protected Pivot*) protect principal and create income. Health-enhanced income riders and 1035 exchanges into LTC annuities can give old annuity gains a tax-free purpose.
- **Living benefits** (this book) add a dedicated, often tax-free source of money for care, which protects both your Roth and your traditional accounts from being drained by a health event.
- **Indexed universal life** (*The Private Bank Pivot*) builds cash value that can be borrowed income-tax-free when the policy is designed and managed correctly, and its accelerated benefit riders give the same policy a second job: paying for care.

Living Benefits and Your Roth Conversion Plan

Many readers of *The Tax-Free Pivot* are in the middle of a multi-year Roth conversion plan. A health event can knock that plan off course in two ways. First, large IRA withdrawals to pay for care add to taxable income and can use up the low brackets you were saving for conversions. Second, a care event can force you to sell investments at the wrong time, just as a bear market can.

Tax-free living benefits help on both counts. When care is paid for from a source that generally does not add to adjusted gross income, your conversion schedule can continue as planned, and your IRA can keep doing the job you gave it. That is the practical meaning of “protect it, grow it, convert it to tax-free”: the protection has to include your health, not only your investments.

One more coordination point to raise with your CPA: qualified long-term care services are generally treated as medical expenses for tax purposes, and medical expenses above 7.5% of AGI can be deductible if you itemize. In a year with large care costs, that deduction may create room for a larger conversion at a lower effective cost. The rules are detailed, so model it before acting.

“The government is a silent partner in every Traditional IRA and 401(k) you own – and it hasn’t told you yet what its cut will be.”

— Suba Narla, *The Tax-Free Pivot*

A Note on Medicare Premiums and Social Security

Because qualified LTC benefits and accelerated death benefits within the limits are generally excluded from income, they typically do not increase your adjusted gross income. That means they generally do not raise the taxable portion of your Social Security or trigger higher Medicare premiums (IRMAA) the way large IRA withdrawals can.

Medicaid Considerations

Living benefits and Medicaid interact in complicated ways. Cash value in a life insurance policy may be counted as an asset for Medicaid eligibility. Benefits received may be counted as income. Some states have **Long-Term Care Partnership programs** that allow people who own qualified Partnership LTC policies to protect additional assets from Medicaid spend-down, dollar for dollar with benefits paid. Most hybrid policies are not Partnership-qualified, but some traditional LTC policies are. If Medicaid planning is part of your picture, work with an elder law attorney.

Summary of Key Tax Rules

Benefit	General federal tax treatment
Death benefit to beneficiaries	Generally income-tax-free (Sec. 101(a))
Terminal illness acceleration	Generally income-tax-free (Sec. 101(g))
Chronic illness acceleration	Generally income-tax-free within LTC/per diem limits (Sec. 101(g), 7702B)
Qualified LTC benefits	Generally income-tax-free within limits (Sec. 7702B)
Critical illness acceleration	Depends on structure; may be partly or fully taxable
Policy loans (non-MEC, in force)	Generally not taxable
Exchanges of old policies or annuities	Can be tax-free under Sec. 1035 and the Pension Protection Act

This chapter is general information, not tax advice. Tax laws change, and your situation may differ. Consult a qualified tax professional.

Quick Actions

- ▶ For every rider you own or consider, ask in writing: is it qualified under Section 7702B, or does it pay under Section 101(g)?
- ▶ Before cashing in an old annuity or policy with a gain, ask whether a 1035 exchange into a policy with LTC benefits could give that gain a tax-free purpose.
- ▶ Coordinate care planning with your Roth conversion schedule so a health event does not derail it.
- ▶ If Medicaid could become part of your picture, speak with an elder law attorney before you buy or exchange anything.

CHAPTER 10

Matching the Right Tool to the Right Stage of Life

There is no single best living benefits product. The right choice depends on your age, your health, where your money sits, whether you are single or married, and what you are most worried about. This chapter walks through the decade-by-decade decisions, then brings them to life with hypothetical families.

“Lead time is the scarcest resource. The highest-value strategies at almost every tier ... require setup well before the event that makes them necessary.”

— Suba Narla, *The Wealth Pivot*

Your 50s: The Window of Opportunity

Your 50s are often the best decade to put living benefits in place. You are usually still healthy enough to qualify for the best rates, and you have 20 or more years for cash values and inflation-protected benefits to grow before care is likely.

Main concerns: protecting income from a critical illness, protecting retirement savings still being built, and locking in insurability.

Tools to consider:

- Term life with built-in living benefits, with a term long enough to reach your 70s and a strong conversion option.
- IUL or whole life with chronic, critical and terminal illness riders, designed for both living benefits and future tax-free retirement income.

- A hybrid life and LTC policy with compound inflation protection, funded over 10 years or to age 65.
- Protected annuities for part of your savings, as covered in *The Protected Pivot*.

PIVOT POINT

In your 50s, you are buying insurability as much as insurance. Coverage you lock in while healthy stays in place even if your health changes later.

Your 60s: The Transition Decade

Your 60s bring retirement, Medicare, Social Security decisions, required minimum distribution planning, and, for many, Roth conversions. It is also the decade when many people first see health changes.

Main concerns: funding a long-term care gap, protecting the healthy spouse, and repositioning old assets.

Tools to consider:

- Single-premium or 5- to 10-pay hybrid life and LTC policies, often funded from savings or through a 1035 exchange of an old policy or annuity.
- Converting existing term insurance to permanent coverage with living benefits before conversion deadlines pass.
- Fixed index annuities with income riders and health-enhanced income features as part of IRA rollover planning.
- LTC annuities funded with non-qualified money.

Your 70s: Repositioning and Simplifying

In your 70s, new life insurance becomes more expensive and underwriting stricter, but good options still exist, especially for people in reasonable health.

Main concerns: making sure a care plan exists, simplifying finances, and protecting the surviving spouse.

Tools to consider:

- Hybrid policies with simplified underwriting (available at some companies into the mid-70s or beyond).
- 1035 exchanges of old annuities with large deferred gains into LTC annuities, giving the gain a tax-free purpose.
- Fixed index annuities with health-enhanced income that require little or no underwriting.
- Reviewing existing life insurance for built-in chronic illness riders you may already have. Many people own policies with living benefits and do not know it.

Your 80s: Using What You Have

By your 80s, buying new insurance is often limited, but living benefits you already own become very important, and some annuity options remain.

Main concerns: accessing benefits efficiently, protecting the survivor, and keeping things simple for family.

Steps to take:

- Make an inventory of every policy and annuity, and find out which living benefits each one has.
- Make sure a trusted family member knows where the policies are and how to file a claim.

- Review annuity surrender charge waivers and health-enhanced income features.
- Keep premiums current on any policy with living benefits. A lapsed policy pays nothing.
- Consider whether a medically underwritten income annuity could provide more income if health is poor.

Living Benefits Across the Wealth Tiers

The *Wealth Pivot* organizes planning into six tiers of liquid assets, from \$250,000 to more than \$100 million. The care question looks different at each level – but, as that book puts it, insurance is a balance-sheet decision at every level. Here is how living benefits typically fit, tier by tier.

Wealth tier (liquid assets)	The care risk	Where living benefits usually fit
Foundation \$250K–\$1M	A single extended care event can consume a large share of the portfolio.	Term or permanent life with built-in chronic and critical illness riders; annuity income doublers and confinement waivers.
Core \$1M–\$5M	Care can derail both income and a Roth conversion plan.	A hybrid life/LTC policy funded from taxable assets or a 1035 exchange, ideally purchased in the 50s or early 60s.
Affluent \$5M–\$10M	Self-funding becomes possible, but a long care event still disrupts tax and legacy plans.	A hybrid or LTC rider to cap the tail risk, so conversion and legacy assets stay on course.
High-Net-Worth and above \$10M+	Care is affordable; the bigger risks are estate liquidity and family governance.	Living benefit riders on individually owned permanent policies add flexibility, often at little or no upfront cost.

FROM *The Wealth Pivot* — CASE EXAMPLE 1, THE CORE TIER

Susan — Bridging Early Retirement After a Business Exit

Susan, 58, sold her minority stake in a regional consulting firm and retired with \$2.4M across a rollover IRA (\$1.5M), a taxable brokerage account (\$700K), and a Roth IRA (\$200K). Single, no dependent, and years away from Medicare or Social Security eligibility.

To bridge the gap to 59½, she structured a 72(t) SEPP plan on a \$900,000 slice of the IRA, generating roughly \$38,000/year in penalty-free income, supplemented by draws from the taxable account. The remaining \$600,000 of IRA stayed untouched and continued growing.

In parallel, she ran Roth conversions on the untouched IRA balance in years the 72(t) income alone kept her in a low bracket and purchased a hybrid life/long-term-care policy funded from taxable assets to cap her LTC tail risk.

Starting liquid assets	\$2.4M
Strategy	72(t) SEPP bridge · parallel Roth conversions · hybrid LTC policy
LTC tail risk	Capped via hybrid policy funded from taxable account

Hypothetical Family Case Studies

The following families are fictional composites created to show how the ideas in this book can come together. Product features and results are simplified and are not guarantees.

CASE STUDY 1 — CHAPTER 10

The Young Retirees Planning Ahead

James and Priya are 57 and 55. Both work; together they earn \$190,000. They have \$1.1 million in 401(k)s and IRAs, a \$150,000 brokerage account, and a mortgage they will pay off in eight years. James's father spent four years in a nursing home, and Priya's mother is living with dementia now.

Their plan: Each buys a hybrid life and LTC policy funded over 10 years, with indemnity benefits and 3% compound inflation protection. James also buys an IUL with built-in chronic, critical and terminal riders, designed to provide tax-free supplemental income in retirement. They begin Roth conversions at 60, using the brokerage account to pay the taxes, following the approach in *The Tax-Free Pivot*.

The result: By 67, they have fully paid care coverage on both lives, a growing IUL cash value, and a Roth account that will not be drained by a care event. Whatever happens (a long healthy life, a care need, or an early death), each dollar has a job.

CASE STUDY 2 — CHAPTER 10**The Widow Protecting Her Independence**

Evelyn is 68 and recently widowed. She has \$600,000 in an IRA, \$90,000 in CDs, her home, and a \$130,000 whole life policy her husband bought on her life 30 years ago. Her two children live in other states.

Her plan: She has her existing whole life policy reviewed and learns it includes a terminal illness rider but no chronic illness benefit. She uses a 1035 exchange to move the cash value into a hybrid life and LTC policy with a larger care pool. She rolls part of her IRA into a fixed index annuity with guaranteed lifetime income and a nursing home waiver, so she has a paycheck for life.

The result: Evelyn has guaranteed income, a dedicated care fund, and a death benefit for her children, and she no longer worries about becoming a financial burden on them.

CASE STUDY 3 — CHAPTER 10**The Couple Declined for Insurance**

Howard and Mae are 76 and 74. Howard had heart surgery at 70; Mae has well-controlled diabetes. Both have been declined for hybrid coverage. They have \$400,000 in IRAs and an old non-qualified annuity with a \$95,000 value.

Their plan: They roll part of their IRAs into a fixed index annuity with an income rider that doubles income for up to five years if either spouse cannot perform two of six ADLs. They keep the old annuity, which includes a confinement waiver, as a reserve.

The result: They have a plan that did not require medical approval, lifetime income for both of them, and an income boost if care is needed.

CASE STUDY 4 — CHAPTER 10

The Business Owner

Carlos is 52 and owns a restaurant group with two partners. The partners have a buy-sell agreement funded with term insurance, but no protection if one of them becomes disabled or chronically ill without dying.

His plan: Each partner buys permanent life insurance with chronic and critical illness riders, and the partners work with an attorney to update the buy-sell agreement to address a long-term illness. Carlos personally adds an IUL designed for supplemental retirement income, with living benefits attached.

The result: The business and the families are protected from a death, a disabling illness, or a long care need, and Carlos has a tax-advantaged supplement to his retirement plan.

CASE STUDY 5 — CHAPTER 10

The Modest-Income Family

Denise is 54, a single school bus driver earning \$48,000, with \$65,000 in her retirement plan. She believes insurance is only for wealthy people.

Her plan: She buys a 20-year term policy of \$250,000 with built-in terminal, chronic and critical illness benefits for a modest monthly premium. She names her adult son as beneficiary and makes sure the policy has a conversion option until 70.

The result: For less than many people spend on streaming subscriptions and coffee, Denise has protection if she dies, a source of money if she has a stroke or cancer while still working, and the option to convert to permanent coverage later without a medical exam.

PIVOT POINT *Living benefits are not only for the wealthy. For modest-income families, a single serious illness can be the difference between stability and hardship, and even an affordable term policy with built-in living benefits can change that.*

A Simple Decision Guide

Your biggest worry	Start by looking at
A serious illness while I'm still working	Term or permanent life with critical and chronic illness riders
Long-term care costs draining our savings	Hybrid life and LTC policy
I want care coverage but hate "use it or lose it"	Hybrid life and LTC, or LTC annuity
I have an old policy or annuity I don't need	1035 exchange into a hybrid or LTC annuity
I've been declined for life insurance	Annuity with health-enhanced income and confinement waivers
I want tax-free retirement income too	IUL or whole life with living benefit riders
Protecting my spouse if I need care	Joint hybrid coverage; income riders with health enhancement

In the next chapter, we will look at the fine print: the pitfalls that can turn a good-looking living benefit into a disappointment.

"Either answer is fine, as long as it's a decision you made on purpose rather than a window that closed while you weren't looking."

— Suba Narla, *The Tax-Free Pivot*

The Fine Print: Pitfalls to Avoid

Living benefits can be tremendously valuable, but only if they pay when you need them, in the amount you expected. Most disappointments come not from bad products but from misunderstood ones. This chapter covers the most common pitfalls and how to avoid them.

“You get the market’s upside with none of the downside’ is the most common IUL sales line, and it is misleading.”

— Suba Narla, *The Private Bank Pivot*

Pitfall 1: Assuming “Chronic Illness Rider” Means “Long-Term Care Insurance”

This is the most common and most expensive misunderstanding. A free chronic illness rider using the discount method may pay much less than the death benefit it replaces, and the amount is not known until claim time. A true long-term care rider or hybrid policy typically pays a defined monthly benefit, dollar for dollar, and may include an extension of benefits.

How to avoid it: Ask directly, “If I qualify for chronic illness benefits at age 80, approximately how much would I receive, and how is it calculated?” Ask for a sample claim illustration if the company provides one.

Pitfall 2: The “Permanent” Requirement

Some chronic illness riders require that the condition be **permanent**, meaning the insured is not expected to recover. A person who has a stroke, needs help for a year, and then

partially recovers may not qualify under such a rider, even though they needed care. Riders qualified under Section 7702B generally do not require permanence.

How to avoid it: Ask, “Does the chronic illness definition require the condition to be permanent?”

Pitfall 3: Letting the Policy Lapse

A policy that lapses pays nothing: no death benefit, no living benefits. Lapses happen when premiums are missed, when a universal life or IUL is underfunded, or when loans grow too large. Ironically, lapses often happen when people begin to lose cognitive ability and stop paying bills.

How to avoid it:

- Set up automatic premium payments.
- Name a **third-party notice designee**, a trusted person the company will notify if a premium is missed. Many states require companies to offer this for LTC coverage.
- Review universal life and IUL policies every year or two with an in-force illustration.
- Keep loans at a sustainable level.

PIVOT POINT

Name a trusted family member to receive lapse notices. It costs nothing and can save a policy at the exact moment you are least able to manage it yourself.

Pitfall 4: Ignoring Inflation

A \$4,000-a-month care benefit purchased at 55 may buy far less care at 82. Without inflation protection, the real value of a benefit can shrink by half or more over 25 years.

How to avoid it: For buyers under about 70, strongly consider compound inflation protection or a larger initial benefit. Compare the cost of both approaches.

Pitfall 5: Relying on Illustrations Without Stress-Testing Them

IUL and universal life illustrations show projected values based on assumed crediting rates and current charges. Neither is guaranteed. An illustration run at an optimistic rate can make a policy look better than it will perform, and can hide the risk of lapse in later years.

How to avoid it: Ask for illustrations at a lower crediting rate, and at guaranteed values. Make sure the policy still works in a less favorable scenario.

Pitfall 6: Not Understanding the Elimination Period

A 90-day elimination period means you will pay for the first 90 days of care yourself. Some policies count only days on which you receive paid care, which can stretch the waiting period out much longer if care is intermittent.

How to avoid it: Ask whether the elimination period is counted in calendar days or service days, whether it has to be met only once in a lifetime, and whether home care has a shorter or zero-day elimination period.

Pitfall 7: Reimbursement When You Expected Cash

If you plan to have a family member provide care, or you live where formal caregivers are hard to find, a reimbursement policy that excludes family caregivers may pay little.

How to avoid it: Ask, “Can benefits be used to pay a family member? Is this an indemnity or reimbursement design?”

Pitfall 8: Buying Too Late

Many people wait until a health scare to think about living benefits. By then, underwriting may decline them or price coverage out of reach. Conditions such as memory complaints, a recent stroke, multiple falls, or the use of a walker or cane often lead to a decline for hybrid and LTC coverage.

How to avoid it: Start in your 50s or early 60s. If you already have health issues, look at annuity-based options (Chapter 8) and existing policies you may already own.

Pitfall 9: Replacing a Good Policy With a Worse One

Replacing an existing policy, whether through a 1035 exchange or otherwise, can be smart, but it can also be costly. The old policy may have better guarantees, lower costs, or valuable riders that are no longer available. New policies usually come with new surrender charges and a new contestability period.

How to avoid it: Before replacing any policy, request an in-force illustration of the existing policy, compare features side by side, and ask the advisor to explain in writing why the replacement is in your interest. Most states require a replacement form for this reason.

Pitfall 10: Forgetting to Tell the Family

A living benefit that nobody knows about is a living benefit that may never be claimed. Families often discover policies only after a death, sometimes years after benefits could have helped.

How to avoid it: Keep a simple one-page summary of every policy and annuity, including the company, policy number, contact phone number, and which living benefits apply. Store it with your will, power of attorney and health care directive, and tell your executor and power of attorney where it is.

Pitfall 11: Overlooking the Legal Documents

When a person becomes chronically ill or cognitively impaired, someone else usually has to file the claim, sign forms and manage the money. Without a durable power of attorney and a health care power of attorney, the family may need to go to court to get authority.

How to avoid it: Work with an attorney to prepare a durable financial power of attorney, a health care power of attorney, and a HIPAA authorization, and make sure they allow the agent to deal with insurance companies.

Pitfall 12: Not Reading the State Variations

Living benefit riders are regulated by each state. A rider available in one state may be unavailable or modified in another, and definitions, especially for critical illness, may differ.

How to avoid it: Ask for the state-specific rider forms and descriptions for your state of residence.

A One-Page Checklist of Questions

Before you buy, ask the insurance professional to answer these questions in writing:

1. Which living benefits does this policy include, and which ones cost extra?
2. How is each benefit calculated: discount, lien, or dollar-for-dollar?
3. Is the long-term care or chronic illness benefit qualified under Section 7702B or 101(g)?
4. Does the chronic illness definition require permanence?
5. Is the benefit indemnity or reimbursement? Can a family member be paid?

6. What is the monthly maximum, the elimination period and the total benefit pool?
7. Is there an extension of benefits? A residual death benefit?
8. Is inflation protection included? Simple or compound?
9. Are the premiums guaranteed?
10. What is the return of premium or surrender value if I change my mind?
11. How do policy loans affect the living benefits?
12. Is this policy available in my state with the same features?

Your Living Benefits Pivot Plan

You have learned what living benefits are, how each product family uses them, how they are taxed, and what to watch out for. Now it is time to turn knowledge into action. This chapter gives you a step-by-step plan you can work through on your own and then bring to a licensed professional.

“A book can map the terrain. It cannot replace a qualified team that knows your specific numbers, your family, and your goals.”

— Suba Narla, *The Wealth Pivot*

Step 1: Take Inventory of What You Already Own

Many people already own living benefits without knowing it. Gather every policy and contract:

- Life insurance: term, whole life, universal life, IUL, group life through an employer.
- Annuities: fixed, fixed index, variable, immediate.
- Long-term care insurance, disability insurance, and critical illness coverage.

For each one, call the company or your agent and ask: What living benefits does this policy have? What are the triggers? How are benefits calculated? When does coverage end?

Policy / contract	Company	Face or account value	Living benefits included	Ends at

Step 2: Estimate Your Care Funding Gap

Use the exercise from Chapter 2:

Item	Amount
Local annual cost of the care you would prefer (home care, assisted living, or nursing home)	\$_____
Number of years to plan for	
Inflation-adjusted total (use an advisor's calculator or 3% a year)	\$_____
Minus: income available for care (Social Security, pension, annuity income)	\$_____
Minus: existing living benefits and LTC coverage	\$_____
Your care funding gap	\$_____

Step 3: Decide How Much of the Gap to Insure

You do not have to insure the entire gap. Some families insure all of it; others insure half and plan to use savings for the rest. Questions to discuss:

- How much of our savings do we want to protect for the healthy spouse and for our heirs?
- How comfortable are we using our own savings for care?
- How important is it to avoid relying on family caregivers?
- Is there a family history of dementia or long-lived relatives?

Step 4: Identify Your Funding Sources

Where will the premium or deposit come from? Common sources include:

- **Cash flow** from current income (for annual premiums).

- **Savings, CDs, money market funds** that earn little and are held “just in case.” This is often the “just in case” money that a hybrid policy can put to work.
- **Existing life insurance policies or annuities**, repositioned through a 1035 exchange.
- **IRA or 401(k) money**, for annuity-based solutions (qualified money generally cannot fund LTC annuities or life-based hybrids directly, but can fund fixed index annuities with income riders).
- **HSA funds**, for qualified LTC premiums within limits.

Step 5: Match Products to Your Situation

Use Chapter 10’s decision guide. Most families end up with a combination, for example:

- A hybrid policy for dedicated care funding.
- A permanent policy with built-in accelerated benefits for legacy and backup.
- An annuity with guaranteed income and health-enhanced features for the income side.

Step 6: Coordinate With Your Tax and Retirement Plan

Living benefits should fit your overall plan, not stand alone. Ask your advisors:

- How does this purchase affect our Roth conversion schedule?
- Are we using taxable, tax-deferred, or tax-free money to fund it, and is that the best choice?
- Will this change our required minimum distributions or Medicare premiums?

- How will this interact with our estate plan and beneficiary designations?

Step 7: Apply While You Are Healthy

Underwriting is based on your health on the day you apply. Do not put off applying because a decision about which product is “perfect” is taking too long. It is often wise to apply for your preferred option while comparing others. If you are approved, you can decide.

PIVOT POINT

The perfect plan you never put in place protects no one. A good plan in force today beats a perfect plan you are still thinking about when your health changes.

Step 8: Put the Paperwork in Order

- Sign a durable financial power of attorney and a health care power of attorney.
- Name a third-party notice designee on each policy.
- Create a one-page summary of all policies and share it with your agent under power of attorney and your executor.
- Update beneficiary designations on all policies and annuities.

Step 9: Review Every One to Two Years

Life changes, and so do products and tax rules. Review your plan:

- After a marriage, divorce, death, or birth in the family.
- When you retire or change jobs.
- When you receive an inheritance or sell a business.

- Every one to two years for universal life and IUL policies, with a new in-force illustration.

“A good plan responds to the year you’re having, not the year you originally projected on a spreadsheet three years ago.”

— Suba Narla, *The Tax-Free Pivot*

Step 10: Talk to Your Family

Finally, talk with your spouse and your adult children. Tell them what you have put in place, why, and where to find it. Share your wishes about where and how you would like to receive care if the day comes. These conversations are not always easy, but they are among the greatest gifts you can give your family.

The Pivot, One Last Time

Remember the shift at the heart of this book: insurance is not only about the day you die. It is about the years you live. It is about getting money when you are sick, when you need help, and when your family needs to focus on you rather than on the bills.

The five books in the Pivot series are built to work together:

- *The Tax-Free Pivot* moves money from taxable to tax-free.
- *The Protected Pivot* protects money from market loss and turns it into lifetime income.
- *The Wealth Pivot* lays out the complete blueprint for financial freedom.
- *The Private Bank Pivot* turns life insurance into a tax-advantaged private reserve you can borrow from.
- *The Living Benefits Pivot* protects all of it from the financial shock of a health event.

Taken together, they describe a retirement that is tax-smart, protected, and prepared for whatever life brings. You have spent a lifetime building your wealth. Now make sure it takes care of you.

APPENDIX

Passages From the Author's Other Books

The Living Benefits Pivot is the fifth book in a series written to work together. The passages below are drawn from the four companion books because each one bears directly on the decisions in this book — how your savings are taxed, how they are protected, how they fit your level of wealth, and how life insurance can serve you while you are living.

From The Tax-Free Pivot

Your Plain-English Playbook for Roth Conversions, Ages 50 to 75

Here's something nobody puts in a brochure: the government is a silent partner in every Traditional IRA and 401(k) you own, and it hasn't told you yet, what its cut will be. Money in those accounts is tax-deferred, not tax-free — you owe on it eventually, you just don't know the rate, because tomorrow's tax law hasn't been written. A Roth conversion is how you buy out that silent partner today, at a price you can see on paper, instead of leaving an open bar tab for your future self, or worse, for your kids.

From The Protected Pivot

Annuities, IRA & 401(k) Rollovers, Roth Conversions and Tax-Smart Retirement Strategies for Ages 50 to 85

A Roth conversion plan runs over many years, and it works best when the money waiting to be converted is not whipsawed by the market. An FIA inside a Traditional IRA can act as a protected “on-deck” account for future conversions, and an FIA inside a Roth IRA can give tax-free dollars a floor.

An FIA inside a Roth IRA offers exactly that combination: a 0% floor, index-linked growth, and tax-free treatment of everything credited. If the FIA carries an income rider, the lifetime income it generates can be

entirely tax-free once the Roth's five-year and age-59½ requirements are met. A guaranteed, tax-free paycheck for life does not add to taxable income, does not raise IRMAA surcharges, and does not make Social Security benefits taxable. For many retirees, that is one of the most efficient income sources available anywhere in the tax code.

From The Wealth Pivot

Retirement Tax Strategies and Wealth Design for Financial Freedom, From \$250,000 to \$100 Million and Beyond

To build an efficient retirement tax strategy, stop looking at net worth as a single number and start looking at it as three distinct buckets, each with its own tax treatment. Where your assets sit across these buckets — not just how much you have — determines your annual tax flexibility for the next thirty years.

Retirement tax planning is not about illegal evasion; it is about strategic avoidance — understanding the tax code well enough to choose when, how, and from which bucket you draw income, so you keep the maximum amount possible.

Insurance is a balance-sheet decision at every level. Whether it is long-term care coverage at \$1M or a survivorship policy funding estate tax liquidity at \$15M, insurance consistently converts an unpredictable, portfolio-threatening risk into a predictable cost.

From The Private Bank Pivot

Be Your Own Banker with Fixed Index Universal Life

A Fixed Index Universal Life policy (called IUL or FIUL; this book uses the two interchangeably) is permanent life insurance with a cash account that earns interest linked to a stock market index, protected by a floor that keeps market declines from reducing it. Designed well, funded well, and held long enough, it can protect a family, build a pool of tax-advantaged money, and later deliver income the IRS does not tax. Designed poorly, underfunded, or sold to the wrong person, it can quietly consume itself in fees and collapse in the policyholder's seventies, sometimes with a tax bill attached.

A generation ago, life insurance paid only at death. Today most IULs include accelerated benefit riders that let a policyholder access part of the death benefit for a terminal, chronic, or critical illness. For many middle-income families, these riders are now as important as the death benefit or the cash value, because they provide a measure of long-term-care protection without a separate long-term-care policy.

Glossary

Accelerated death benefit (ADB): A feature that allows a policy owner to receive part of a life insurance death benefit while still alive, upon a qualifying health event.

Activities of daily living (ADLs): Six basic self-care activities used to determine eligibility for chronic illness and long-term care benefits: bathing, dressing, eating, toileting, transferring and continence.

Annuity: A contract with an insurance company that can provide protected growth, income for life, and, with certain riders, health-related benefits.

Benefit pool: The total dollar amount available for long-term care benefits under a policy.

Cap: In an indexed product, the maximum rate of interest credited in a period, regardless of how much the index rises.

Cash value: The savings component of a permanent life insurance policy, which can be borrowed against or withdrawn.

Chronic illness: Generally, the inability to perform at least two of six ADLs for at least 90 days, or a severe cognitive impairment requiring substantial supervision.

Critical illness: A serious diagnosis listed in a policy, such as heart attack, stroke, invasive cancer or organ transplant.

Discount method: A way of paying accelerated benefits in which the insurer pays the present value of the death benefit being accelerated.

Dollar-for-dollar: A way of paying accelerated benefits in which each dollar received reduces the death benefit by one dollar.

Elimination period: A waiting period between qualifying for benefits and the start of benefit payments.

Extension of benefits: A feature that continues paying long-term care benefits after the death benefit has been used up.

Floor: In an indexed product, the minimum rate credited in a period, usually 0%, protecting against index losses.

Guaranteed lifetime withdrawal benefit (GLWB): An annuity rider that guarantees income for life, regardless of the account value.

Hybrid policy: A policy that combines life insurance or an annuity with long-term care benefits. Also called a linked-benefit or asset-based policy.

Income doubler: A feature of some annuity income riders that increases lifetime income, often to twice the normal amount, for a period when the owner cannot perform ADLs or is confined to a care facility.

Indemnity benefit: A benefit paid in full once a person qualifies, regardless of actual expenses.

Indexed universal life (IUL): Permanent life insurance whose cash value can earn interest linked to a market index, subject to a cap and a floor.

IRMAA: Income-Related Monthly Adjustment Amount; a surcharge on Medicare Part B and Part D premiums for people with higher incomes.

Modified endowment contract (MEC): A life insurance policy funded too quickly under tax rules, which causes loans and withdrawals to be taxed less favorably.

Paid-up additions: Small amounts of additional paid-up whole life insurance purchased with dividends or extra premium.

Per diem limit: The daily limit set by the IRS on tax-free indemnity long-term care benefits (\$430 per day for 2026).

Reimbursement benefit: A benefit that repays actual qualified care expenses up to a maximum.

Residual death benefit: A minimum death benefit that remains after all long-term care benefits are used.

Rider: An optional feature added to an insurance policy or annuity.

Section 101(g): The tax code section that treats certain accelerated death benefits as tax-free.

Section 1035 exchange: A tax-free exchange of one life insurance policy or annuity for another, including, under the Pension Protection Act, for qualified LTC coverage.

Section 7702B: The tax code section that defines qualified long-term care insurance and its tax treatment.

Surrender charge: A charge for withdrawing more than the free amount from an annuity or life policy during the early years.

Terminal illness: Generally, a condition expected to result in death within 24 months (12 months in some policies).

Third-party notice designee: A person named to receive a notice before a policy lapses for unpaid premium.

Waiver of premium: A rider that pays premiums if the insured becomes totally disabled.

Resources

- **U.S. Administration for Community Living:** acl.gov/ltc, for plain-language information on long-term care needs and planning.
- **CareScout Cost of Care Survey:** carescout.com/cost-of-care, for care costs in your state and city.
- **Medicare:** medicare.gov, for what Medicare does and does not cover.
- **Internal Revenue Service:** irs.gov, including Publication 502 (Medical and Dental Expenses) and the instructions for Form 8853.
- **Your state insurance department:** for company licensing, complaints and consumer guides on long-term care and life insurance.
- **National Academy of Elder Law Attorneys:** naela.org, to find an elder law attorney for Medicaid and estate planning.

About the Author

Suba Narla

Financial Advisor, Wealth Strategist & Founder, Wealth Strategies USA

Suba Narla is a Financial Advisor, Wealth Strategist, and Founder of Wealth Strategies USA, as well as a writer and educator focused on retirement income and tax strategies across the full spectrum of household wealth. His work centers on a simple premise: the mechanics of a good retirement plan — how withdrawals are sequenced, when Roth conversions make sense, how guaranteed income is built, how estate structures are designed — are the same regardless of net worth, even as the tools available and the risks that dominate change dramatically as assets grow. He especially enjoys converting clients' tax-deferred incomes to tax-free incomes.

The Living Benefits Pivot brings together two of his core areas of focus — the insurance-based products that can protect a family and pay benefits while the insured is still living, and the tax mechanics that determine how much of a family's money it actually keeps. This book connects the two directly: how accelerated death benefits, chronic and critical illness riders, hybrid life and long-term care policies, and annuity health riders work, how they are taxed, and how families at every stage from 50 to 85 can use them to keep a health event from undoing a lifetime of saving.

He is an independent insurance broker affiliated with several insurance companies, including American Equity, Annexus, Athene, Nationwide, North American, Allianz, Securian and

Symetra. The information in this book is provided to explain concepts and how living benefit insurance products are evolving, not to recommend any company or product.

He lives and writes in the United States and continues to research and publish on retirement income, tax-efficient wealth transfer, and family financial governance.

Also by Suba Narla

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The Private Bank Pivot

Be Your Own Banker with Fixed Index Universal Life — Tax-Free Income, Funding for College, Business, Real Estate, Retirement & Legacy.

“Protect your family. Grow your cash value. Borrow it tax-free.”

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Fixed index annuities and indexed universal life insurance are not securities and do not directly participate in any stock market or index. Past index performance does not guarantee future results. Illustrations are hypothetical and are not guarantees of future performance.

All case studies and characters in this book are hypothetical composites created for educational illustration. Any resemblance to actual persons is coincidental. Figures are simplified and rounded.

Care cost data are from the CareScout 2025 Cost of Care Survey and the U.S. Administration for Community Living. Tax figures are from IRS guidance for 2026. Figures change over time; readers should confirm current information.

Author disclosure: Suba Narla is an independent insurance broker. Through Wealth Strategies USA, he is affiliated with several insurance companies, including American Equity,

Annexus, Athene, Nationwide, North American, Allianz, Securian and Symetra, and may receive compensation when clients purchase their life insurance or annuity products. The information in this book is provided solely to help readers understand living benefit concepts and how these products are changing; it is not a recommendation of any company or product. The author did not seek or obtain permission from any of the companies named in this book to mention them, and none of them sponsored, reviewed, approved, or endorsed its content.

Get paid while you're living.

Most families buy life insurance for the day they die. But the bigger risk in retirement is often living — for years — with an illness or a need for care that can drain a lifetime of savings in a few short years.

The Living Benefits Pivot shows adults 50 to 85 how modern life insurance, hybrid long-term care policies, and annuity riders can pay you while you are still living, so a health event doesn't undo the plan you spent forty years building.

Inside, you'll learn:

- ◆ How terminal, chronic, and critical illness riders really pay — and what they cost
- ◆ Term, whole life, and IUL with living benefits, compared side by side
- ◆ How hybrid life/LTC policies end the “use it or lose it” problem
- ◆ Annuity income doublers and waivers when you can't qualify for insurance
- ◆ The tax rules that can make care dollars income-tax-free
- ◆ Twelve pitfalls to avoid, and a ten-step plan to take to your advisor

“Traditional LTC insurance, hybrid life/LTC policies, and deliberate self-funding are the three realistic paths — the wrong answer is no plan at all.”

— from *The Wealth Pivot*

Suba Narla is a Financial Advisor, Wealth Strategist, and Founder of Wealth Strategies USA. He is the author of all six books in *The Pivot Series*.

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