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

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

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

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

Utilizing the LTCAV for qualifying LTC expenses

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

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

Utilizing the COB provision for qualifying LTC expenses

Carol has utilized her entire LTCAV for long-term care expenses and is now accessing the COB provision of her Annuity Care II. She accesses $60,000 of her COB Balance for qualifying LTC expenses in a given year.

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

Paying for the COB provision through monthly charges

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

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

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

- Full and partial surrenders are treated as taxable to the extent of amounts received in excess of cash surrender value over the investment in the contract
- Payments made under an annuitization (settlement) provision will return the owner's cost basis in equal tax-free amounts over the payout period

Annuity Care®

About State Life

The State Life Insurance Company, a OneAmerica company, is focused on providing asset-based long-term care solutions. State Life is a recognized leader in providing these solutions, which utilize life insurance, fixed-interest deferred and immediate annuities. The company's extensive Care Solutions portfolio of products helps consumers build a secure future by helping to protect their assets.

Notes: The information provided does not constitute legal, accounting, tax or other advice. As with all tax matters, your clients should consult with their personal tax advisor for information specific to their situation. Underwritten and issued by The State Life Insurance Company, Annuity Care II is a single premium fixed interest deferred annuity that combines long-term asset growth with long-term care benefits. Policy form SA35 may not be available in all states or may vary by state.

For company and recruitment only. Not for company distribution.

Products and financial services provided by

THE STATE LIFE INSURANCE COMPANY | *a* ONEAMERICA® *company*

P.O. Box 406 | Indianapolis, IN 46206 | (317) 285-2300 | www.oneamerica.com

Use a portion of large, existing annuities for LTC protection

Annuity Care®

If you have clients with large non-qualified annuities, there are new opportunities to help them prepare for long-term care expenses.

Clients have many reasons to consider a partial 1035 exchange, especially for annuities with significant accumulated value. For some people, the need for LTC protection can be achieved by redirection of existing assets.

With an immediately enhanced LTC accumulated value, Annuity Care II can be an attractive outlet for such funds. By allocating a portion of an existing annuity to Annuity Care II via a partial Section 1035 exchange, your clients can create a significant pool of dollars that are available for long-term care expenses. Of course, any replacement of an existing annuity must not be made unless all factors are weighed and it is documented as suitable for the client.

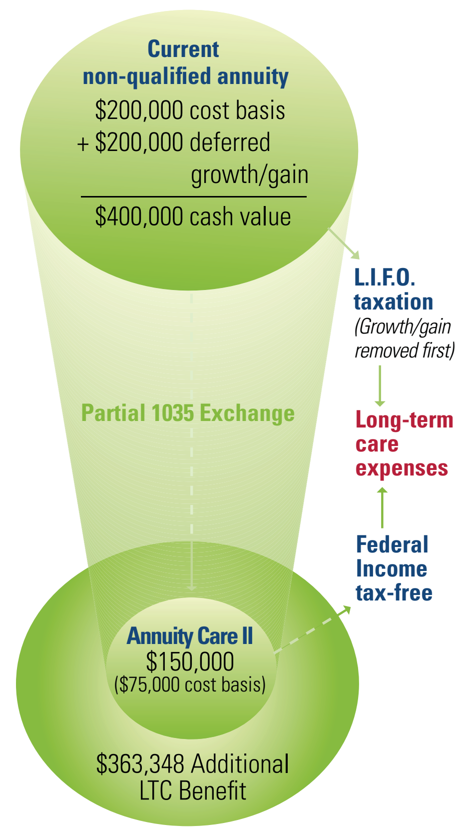
Case study example

John is 68 and in good health. Years ago he purchased a nonqualified annuity that now has an accumulated value of $400,000 and a cost basis of $200,000. Overall, John has been satisfied with the annuity, especially an income benefit not yet utilized. Of immediate concern to John and his wife, Elaine, is the fact they have not addressed their exposure to LTC expenses.

Based on their situation, John executes a partial 1035 exchange of $150,000 to Annuity Care II. This amount leaves sufficient value in his existing annuity to meet any future income needs.

With Annuity Care II, John would have an initial benefit pool of $513,348 — his premium of $150,000, plus an additional $363,348 from the continuation of benefits balance — that will grow over time as his annuity accumulates interest. Qualifying LTC expenses paid from Annuity Care II are federal income tax-free under the Internal Revenue Code, and at death any unused annuity cash value will pass to the named beneficiary. John was also able to add Elaine as an insured on the policy through Annuity Care II's Eligible Person contractual provision.

Annuity Care hypothetical example



For company and recruiting use only. Not for public distribution.

Products and financial services provided by
THE STATE LIFE INSURANCE COMPANY | *a* ONEAMERICA® *company*
P.O. Box 406 | Indianapolis, IN 46206 | 1-800-275-5101 | www.oneamerica.com
I-23441
I-23441 09/27/11

Notes: Effective October 24, under Revenue Procedure 2011-38, any amount received under either the original contract or new contract within 180 days of a partial 1035 transfer may be characterized as taxable after application of general tax principles to determine the substance of the transfer. This would include partial or full surrenders.

The information provided does not constitute legal, accounting, tax, or other advice. As with all tax matters, your clients should consult with their personal tax advisor for information specific to their situation.

Annuity Care II is underwritten and issued by The State Life Insurance Company, Indianapolis, Indiana. Policy Form SA35. Product not available in all states or may vary by state. All individuals in this scenario are fictitious and all numeric examples are hypothetical and are used for analytical purposes only.

While partial 1035 exchanges are not always an appropriate course of action, the opportunity to use Annuity Care II when the situation merits is significant. Contact your State Life wholesaling team at **1-800-275-5101** for further details.

For company and recruiting use only. Not for public distribution.

Products and financial services provided by
THE STATE LIFE INSURANCE COMPANY | *a* ONEAMERICA® *company*
P.O. Box 406 | Indianapolis, IN 46206 | 1-800-275-5101 | www.oneamerica.com