

# Tax Policy Supports Risk Transfer

		Tax Treatment at Purchase	Tax Treatment at Accumulation Stage	Tax Treatment at Payout Stage	
Individual Life Insurance	Risk Transferred	Mortality risk (Ensures dependents can be financially secure)	Premiums are paid with after-tax dollars; premiums are not deductible.	Earnings on build-up of savings (cash value) of permanent life insurance are not taxed as long as the policy remains in force.	Death benefits are not taxed. If a policy is surrendered or lapses before death, earnings in excess of the total premiums paid are taxed at ordinary income tax rates.
		Longevity risk (Ensures retirement income will last as long as annuitant—and spouse—live)	Non-qualified (individual) annuities are purchased with after-tax dollars. Qualified annuities, which are funded with money rolled over from a qualified defined contribution plan, are purchased with pre-tax dollars.	Any earnings grow free of current federal income tax.	When income is received from an individual annuity, the portion that comes from earnings is taxed as ordinary income (the principal is not because it has already been taxed). Tax penalties exist for withdrawals before age 59 ½. Payouts from qualified annuities are subject to ordinary income tax. Qualified annuities are also subject to “required minimum distribution” rules: withdrawals must begin by 70 ½ or tax penalties apply in addition to income tax due.
Annuities		Financial risk (Ensures savings are not depleted to pay for long-term care services to assist with the activities of daily living)	Premiums are paid with after-tax dollars. A portion of long-term care insurance premiums may be deducted as part of medical expenses if amounts exceed 7.5% of adjusted gross income.	Not applicable	Benefits are not taxed except for per diem policies that pay amounts that exceed limits set by the IRS (\$280 in 2008).
	Long-Term Care Insurance	Loss of income (Ensures continued income in the event of disability)	Coverage purchased with after-tax dollars by individuals cannot be deducted; employers can deduct premiums if they pay for employees’ coverage.	Not applicable	With an individual policy, benefits are not taxed if the policy holder pays the premium in full; benefits are taxed at ordinary income tax rates if an employer pays for coverage.
Disability Income Insurance					