

# 2025 · WHAT ISSUES SHOULD I CONSIDER WHEN DOING A SECTION 1035 EXCHANGE?

| GENERAL ISSUES  | YES                      | NO                       |
|---|--------------------------|--------------------------|
| <p><b>Do you need to review what type of policy/contract you can exchange from and to?</b> If so, consider the following:</p> <ul style="list-style-type: none"> <li>■ A life insurance policy may be exchanged for another life insurance policy, a modified endowment contract (MEC), a non-qualified annuity, or a qualified long-term care policy.</li> <li>■ A MEC may be exchanged for another MEC, a non-qualified annuity, or a qualified long-term care policy.</li> <li>■ A non-qualified annuity may be exchanged for another non-qualified annuity or a qualified long-term care policy.</li> <li>■ A qualified long-term care policy may only be exchanged for another qualified long-term care policy.</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Do you have multiple policies/contracts you are thinking of exchanging?</b> If so, be mindful that you may exchange multiple policies/contracts into a single new policy/contract, but you may not exchange a single policy/contract into multiple policies/contracts.</p>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Do you wish to change the owner of the policy/contract you are considering exchanging?</b> If so, consider changing the owner prior to the exchange, as it likely won't be allowed during the exchange. Be mindful of potential income tax or gift tax consequences if changing owners.</p>   | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Has your health situation or age changed since you purchased the policy/contract you are considering exchanging?</b> If so, consider whether you would be giving up certain cost savings or policy benefits that were acquired when you were younger and/or healthier.</p>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Does your current policy/contract have any specific product features that are no longer available in newer products?</b> If so, consider whether any specific features are worth keeping before implementing a 1035 exchange into a new product that may not have those benefits. (continue on next column)</p>   | <input type="checkbox"/> | <input type="checkbox"/> |

| GENERAL ISSUES (CONTINUED)   | YES                      | NO                       |
|--|--------------------------|--------------------------|
| <p><b>Would the current policy/contract you are considering exchanging be subject to surrender fees or penalties?</b> If so, consider whether the benefits of your new policy outweigh the cost of the surrender fees or penalties before making your decision. If you are close to the anniversary date of your policy/contract, it may be worth waiting to do the exchange after the anniversary if your surrender fee is expected to be lower at that time.</p> | <input type="checkbox"/> | <input type="checkbox"/> |

| TAX ISSUES   | YES                      | NO                       |
|--|--------------------------|--------------------------|
| <p><b>Do you need to review whether you are accurately estimating your cost basis?</b> If so, your cost basis consists of the total amount of contributions you've made to the policy/contract less any "non-gain" (i.e., basis) withdrawals taken. For life insurance policies, dividends/distributions taken in cash, as well as any outstanding policy loans, will further reduce your cost basis. Contact your insurance provider for a detailed summary of your cost basis.</p> | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Is the cost basis in your policy/contract lower than the surrender value (i.e., you are at a gain)?</b> If so, consider using a Section 1035 exchange to defer the taxable gains in your policy/contract if it makes sense for your situation. However, if the amount of gains is small and you are currently in a lower tax bracket, it may make sense to surrender your policy/contract and pay the taxes voluntarily before purchasing a new policy/contract.</p>           | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Is the cost basis in your policy/contract higher than the surrender value (i.e., you are at a loss)?</b> If so, a Section 1035 exchange may be unnecessary if there are no taxable gains to defer. However, it may make sense if you want to preserve your higher cost basis via the exchange (i.e., to avoid a step-down in cost basis).</p>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Are you considering taking a withdrawal from your policy prior to doing a Section 1035 exchange?</b> If so, be mindful of taking basis withdrawals (e.g., FIFO policy/contract) prior to the exchange as it may trigger a step-transaction (i.e., withdrawals may be considered taxable "boot").</p>   | <input type="checkbox"/> | <input type="checkbox"/> |

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| LIFE INSURANCE EXCHANGE ISSUES   | YES                      | NO                       |
|--|--------------------------|--------------------------|
| <p>Does the life insurance policy you are considering exchanging have any outstanding policy loans? If so, be mindful that, depending on the carrier, an exchange may not be allowed unless the loans are paid off beforehand. In some cases, proceeds may be used to pay off the loans as part of the exchange, but any proceeds used will be taxed as ordinary income up to the lesser of (1) your cost basis, or (2) the amount of the loan paid off.</p> | <input type="checkbox"/> | <input type="checkbox"/> |
| <p>Will any proceeds from your current life insurance policy be taken as cash or transferred into a non-like-kind asset (e.g., brokerage account, real estate, etc.)? If so, be mindful that any portion taken as cash or transferred into a non-like-kind asset will be considered “boot” and is taxable as ordinary income up to the lesser of (1) the total amount of boot taken, or (2) the total amount of gain in your policy.</p>                     | <input type="checkbox"/> | <input type="checkbox"/> |
| <p>Is the life insurance policy you currently own a 2nd-to-die policy? If so, be mindful that you may only exchange a 2nd-to-die policy into another 2nd-to-die policy unless one person on the policy has already passed away.</p>  | <input type="checkbox"/> | <input type="checkbox"/> |

| ANNUITY & LONG-TERM CARE EXCHANGE ISSUES   | YES                      | NO                       |
|--|--------------------------|--------------------------|
| <p>Are you currently taking income from the annuity you want to exchange out of? If so, be mindful that immediate annuities, Medicaid annuities, or any other annuities that have been “annuitized” cannot be exchanged for another annuity. However, you may still be able to exchange your annuity if your income is coming from an income rider (i.e., not “annuitized”).</p>   | <input type="checkbox"/> | <input type="checkbox"/> |
| <p>Are you considering purchasing a traditional long-term care (LTC) policy as part of the exchange? If so, be mindful that this will be considered a “partial” 1035 exchange, and would likely need to be implemented yearly in order to keep paying your annual LTC premiums. Be sure to check with your insurance provider, as not all providers, policies, or contracts will allow partial exchanges in this manner. A full exchange into a new life insurance policy or annuity with LTC benefits (i.e., rider) may be considered if this is the case.</p>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <p>Do you need to review whether a “hybrid” LTC product might be a better fit for you? If so, consider the following:</p> <ul style="list-style-type: none"> <li>■ An LTC annuity may be your only alternative if your health condition disqualifies you from a traditional LTC policy.</li> <li>■ A hybrid LTC policy may be purchased via a life insurance policy or annuity contract that has LTC features (e.g., rider, benefits, etc.) via a full 1035 exchange. Be mindful that a “hybrid” policy with an LTC rider is treated as either life insurance or an annuity (depending on what you purchase) regarding 1035 exchange rules.</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> |

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