

Virginia Consumer Alert

ANNUITIES AND VETERANS PENSION QUALIFICATION:

What Retired Military Need to Know Before Transferring Assets to Qualify for Benefits

There are approximately 16 million living U.S. veterans who served in military actions between the 40's and the 70's according to the U.S. Census. For many of these veterans and their families, securing long-term care is foremost in their mind. Many of them are turning to financial and estate planning services that are accredited by the Veterans Administration (VA) to assist them in accessing pension benefits to help with their future care. The majority of insurance agents are honorable hard working people but a recent [Government Accountability Office \(GAO\) Report](#) discovered some insurance agents, financial planners and even lawyers are taking advantage of veterans by putting their money in financial products that may not be suitable for the veteran. As a result the State Corporation Commission's (SCC) Bureau of Insurance is offering the following tips for evaluating these important decisions.

Accreditation and Licensing

Pension benefits are available to low-income wartime veterans who are 65 and older, or who are permanently and totally disabled by conditions unrelated to their military service. To receive these benefits, the veteran or their family must submit [paperwork](#) to the VA. Completing this paperwork can be challenging, so the VA accredits financial planners and lawyers who can help veterans and their families. This accreditation means that the individual is trained to fill out and file the VA paperwork, but the products they sell to seniors to help finance their long-term care are not endorsed by the VA. This also means the financial planner must be licensed to sell financial and insurance products. Consumers should make sure the individual is accredited by the VA and licensed by the SCC's Bureau of Insurance. It is easy to check to see if a person is properly licensed to sell insurance by contacting the Bureau of insurance. Please feel free to contact the bureau at (804) 371-9741 or 1-800-552-7945 (VA Only). Consumers can also go to the Bureau's website at <http://www.scc.virginia.gov/boi/ConsumerInquiry/> and look up an agent's license status online.

Transferring Assets

The recent GAO report found that in some cases financial planners are suggesting veterans transfer assets to family members or a trust to help them qualify for a pension. While the GAO pointed out that this is allowable, some planners are not warning the veterans or their families of other issues this could cause.

As an example, if the veteran needs long-term care and the pension benefit is not enough to cover the expense, it may be necessary to apply for Medicaid. However, Medicaid has a 60-month look-back period. If an individual has transferred substantial assets at less than market value in that period of time, then they may become ineligible for Medicaid services. Before agreeing to gifting assets to loved ones or putting the money in a trust, it is important to evaluate the benefit of the monthly pension versus the possible need for long-term care and how that care can be financed.

Investing in Annuities

According to the GAO report, some planners were placing senior veterans in products that may not be age-appropriate because the veteran may lose access to funds needed for future expenses. For example, the GAO reports that some organizations may sell deferred annuities to an applicant that would make their funds unavailable to them during their expected lifetime without facing high withdrawal fees.

An annuity is a contract in which an insurance company makes a series of income payments at regular intervals in return for a premium or premiums paid by the owner. Annuities are most often purchased for future income and can be structured to provide income for long periods of time. There are annuity products that could be appropriate or useful to a veteran who is looking to receive a monthly income beyond their pension. However, a deferred annuity is structured so that payment for the premium investment is not received for several years and withdrawing funds from it early can be very costly. This kind of annuity would probably not be desirable for an older veteran. Remember, an annuity is not an investment product to help

reach a short-term financial goal.

Before signing a contract for an annuity, it is important to understand the terms of the contract, how any money is invested, and when the benefit payments will begin. Get educated about annuity choices and the deceptive practices that can be used when selling annuities in [this consumer alert](#). Report suspected deceptive sales to the Virginia Bureau of Insurance.

Marketing and Sales Practices

Beyond deceptive sales practices, seniors and their families should be aware of how some organizations market these products. The GAO reports that some representatives may lead potential pension claimants and their family members to believe they are veterans advocates representing a nonprofit organization or endorsed by the VA when, in fact, they are insurance agents trying to sell a product. Sometimes they use presentations at assisted living facilities to offer assistance with a pension application to help veterans qualify for their VA benefits, but do not disclose they are actually insurance agents selling annuities to help them qualify for the benefits. They often use false or misleading designations that seem to indicate they are an expert in senior issues when in fact this not the case. The Bureau has laws against this type of misrepresentation.

State Corporation Commission's (SCC) Bureau of Insurance regulators have rules in place that prohibit unsuitable sales of annuity products to seniors and take violations of these rules seriously, particularly for men and women who served in the armed forces. The consumer and the agent should consider some important factors: They include:

1. The consumer's financial status;
2. The consumer's tax status;
3. The consumer's investment objectives; and
4. Other information used or considered to be reasonable by the agent, or the insurer where no agent is involved

The complete regulation regarding Suitability in Annuity Transaction can be found at the Bureau's web site at <http://www.scc.virginia.gov/boi/laws.aspx> under Title 14 of the Virginia Administrative code Chapter 45. The Bureau can help determine when a senior has been misled by an agent or financial planner.

More Information

The GAO also highlighted a concern that many attendees at these presentations may have degenerative mental states and therefore are not in a position to make decisions about their finances, leaving them vulnerable to suggestions that they must purchase a financial product to qualify for a VA pension. It is important for children of elderly parents to be aware that their parent(s) maybe target of predatory agents or financial planners and take the steps necessary to protect their parents assets.

Baby boomers and their children worried about making financial decisions with health and life insurance implications, must get educated and plan ahead for the future. Knowledge and understanding of all of the issues is the best way to protect hard earned retirement income.

To find out more about wartime veterans pension benefits, visit the [U.S. Department of Veterans Affairs website](#).

September 2012