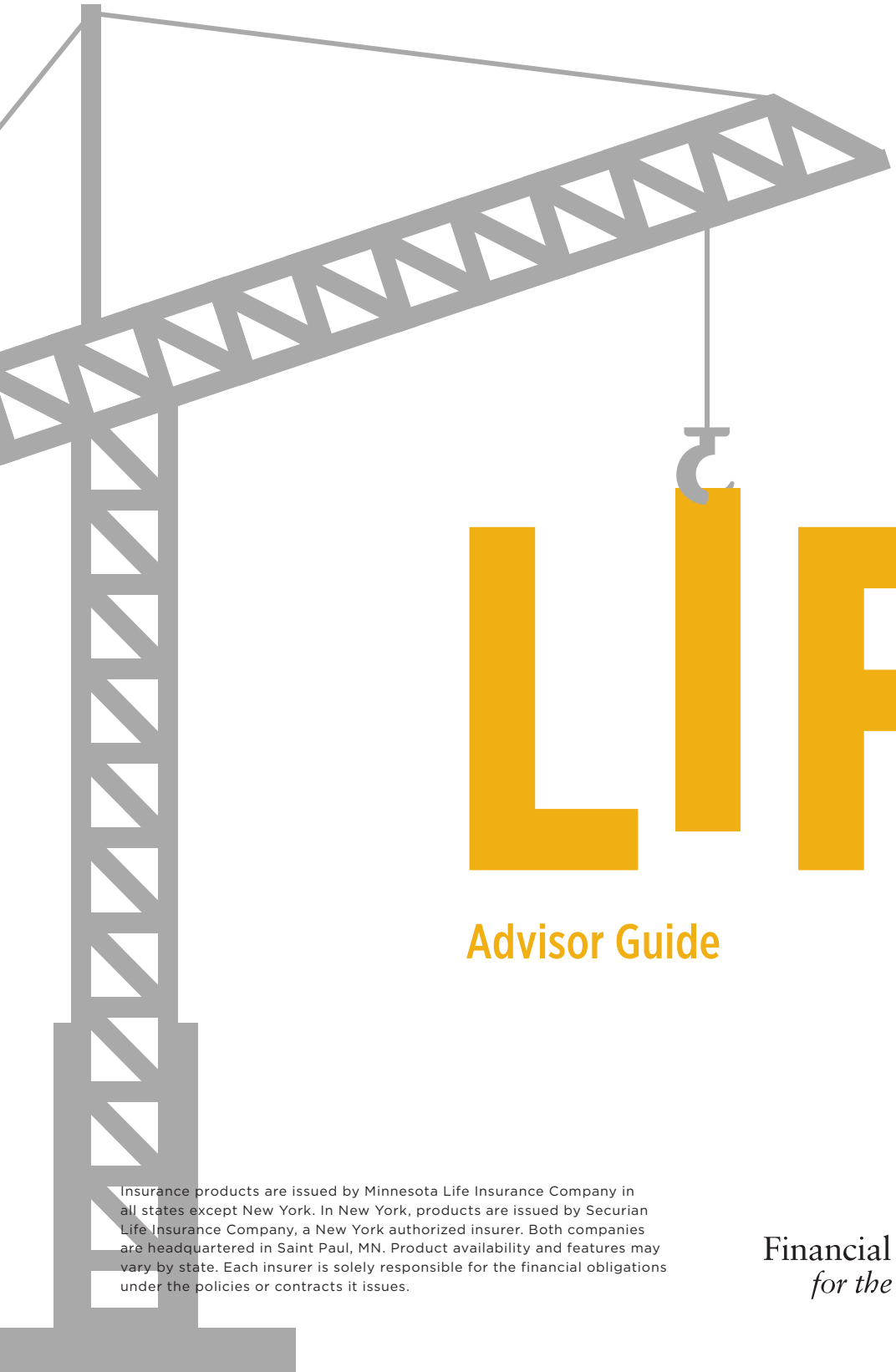
Life Insurance as a Financial Tool

Financial Professional



LIFT

Advisor Guide

Insurance products are issued by Minnesota Life Insurance Company in all states except New York. In New York, products are issued by Securian Life Insurance Company, a New York authorized insurer. Both companies are headquartered in Saint Paul, MN. Product availability and features may vary by state. Each insurer is solely responsible for the financial obligations under the policies or contracts it issues.

Financial security *for the long run*®

SECURIAN®



LIFT helps complete your clients' financial toolbox in order to protect their family, provide retirement income and pass on their estate.

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Life Insurance as a Financial Tool

No tool can solve every problem. Our "Life Insurance as a Financial Tool," or "LIFT" campaign, positions you to show clients why they should consider a variety of tools for their retirement strategy.

One of these financial tools is permanent, cash value life insurance. LIFT helps you demonstrate how life insurance is a key financial tool that can:

- Help your clients protect their families and their assets during their working years.
- Become a source of supplemental funds during retirement that can help clients:
  - Fill their retirement income gap.
  - Decrease taxable income in retirement.
  - Transfer their financial legacy to their family.



Putting together your client's **financial toolbox**

Tax laws are making retirement increasingly complicated. One of the first issues you should address with your clients is the current status of their assets.

The LIFT Fact Finder (F82833-1) helps you separate your clients' assets into three categories:





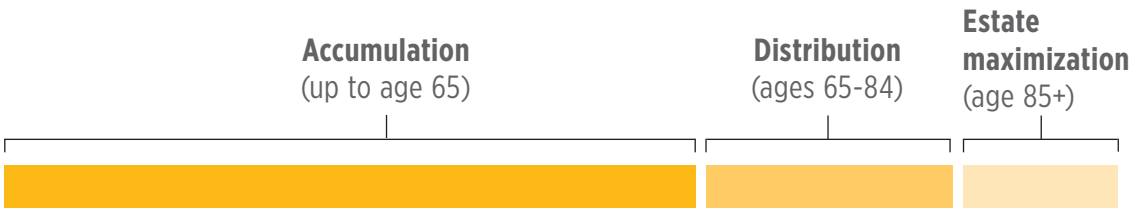




Capital assets **Retirement income assets** **Tax-preferred assets**

Each of these financial tools has three phases: accumulation, distribution and estate maximization, as described in the tables on the following pages. This is important, because **the right mix of financial tools can help minimize taxes, maximize your clients' assets and offer flexibility for each phase of life.**

Phases of life





Capital assets

Capital assets are generally property, investments, securities or other assets purchased for their growth potential. Examples of capital assets include stocks and bonds, real estate or other property, or a business.

Capital asset taxation

Capital assets are most often taxed at a capital gains rate on the difference between the original purchase price and higher sale price.

Capital asset tax characteristics during three life phases	
"Accumulation" phase	Contributions made with after-tax dollars.
"Distribution" phase	Income generated from these assets is typically considered ordinary income. However, qualified dividends are typically taxed at the long-term capital gains tax rate. A gain or loss is realized and determined upon sale or exchange. The amount a client is taxed depends on the client's tax bracket and the amount of time the asset was held before being sold.
"Estate maximization" phase	Assets included in the estate receive step-up or step-down in basis based on their fair market value at time of death.

Retirement income assets

Retirement income assets are designed for retirement income. Examples of retirement income assets include qualified plans, individual retirement accounts (IRAs) and annuities.

Retirement income asset taxation

Retirement income assets are most often taxed as income.

Retirement income asset tax characteristics during three life phases	
"Accumulation" phase	**Qualified assets:** contributions made on a before-tax basis **Nonqualified assets:** contributions made on an after-tax basis. Grow tax-deferred.
"Distribution" phase	Taxed at ordinary income tax rates: • **Qualified assets:** taxed as ordinary income and not deemed investment income for net investment income (health care) surtax. • **Nonqualified assets:** portion based upon the exclusion ratio is taxed at ordinary income tax rates.
"Estate maximization" phase	No step-up or step-down in income tax basis.

Tax-preferred assets

Tax-preferred assets have unique characteristics, making them key tools in your clients' financial toolbox. Life insurance, tax-preferred municipal bonds and Roth IRAs are examples of tax-preferred assets.

Tax-preferred asset taxation

Tax-preferred assets are purchased with after-tax dollars, and distributions receive tax-preferential treatment.

Tax-preferred asset tax characteristics during three life phases	
"Accumulation" phase	Purchased with after-tax dollars. Grow tax-deferred.
"Distribution" phase	**Roth IRA:** Tax-free withdrawals. **Municipal bonds:** Generally, no taxation on sale. **Permanent life insurance:** Withdrawals are tax-free up to basis; taken as loans thereafter for policies that are not modified endowment contracts (MECs).
"Estate maximization" phase	Automatic step-up in basis.



Life Insurance as a Financial Tool

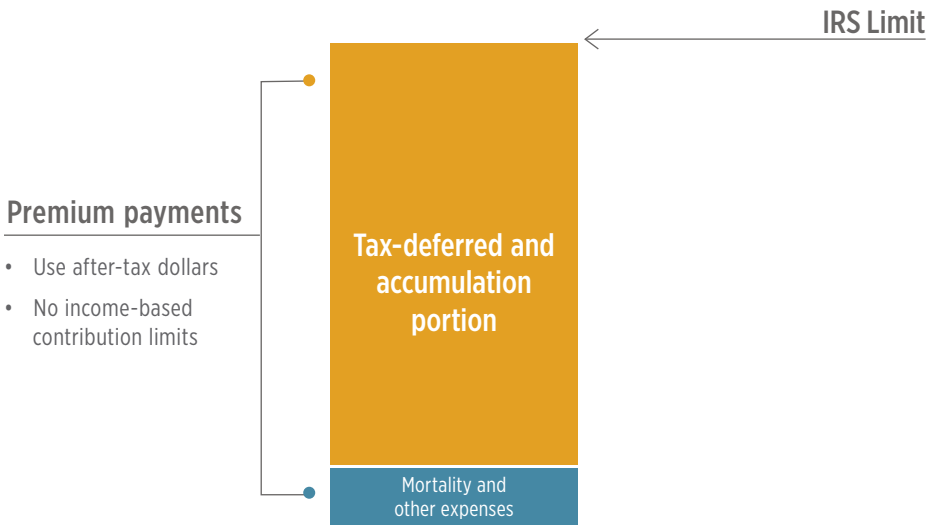
Permanent life insurance can be an important asset for many individuals due to its tax-preferred treatment. No other financial tool becomes an instant asset at the death of the insured. Let's look at three key aspects of life insurance and how they impact your clients' financial toolbox:

1. Premium payments
2. Death benefit
3. Cash value

1. Premium payments

A life insurance policy is purchased with premium payments a client makes to a life insurance company.

Client pays premiums to a life insurance company



Are premium payments tax deductible?

No. Generally, life insurance premiums are not deductible regardless of whether the policy is owned personally or owned by a business.[1] As a general rule, life insurance premiums are not deductible if the premium payer has any interest in the policy or proceeds.

Are there contribution limits for life insurance policies?

Unlike other tax-preferred assets like Roth IRAs, there are no contribution limits based on the client's income. There is, however, a limit set by the IRS that is determined in large part by the amount of death benefit being purchased.

Section 7702 of the Internal Revenue Code generally treats a contract as life insurance for federal income tax purposes if it meets either the Guideline Premium Test (GPT) or Cash Value Accumulation Test (CVAT). If at any time the contract fails to meet the test, the policy will not be treated as life insurance and will lose its tax-favored treatment.

The benefits of a well-funded policy

A well-funded policy is funded close to the legal limits in order to achieve the most amount of premium growing tax-deferred. This reduces the risk the policy will lapse or will require additional premium payments, and potentially produces higher cash values.

How do charges and fees impact accumulation value?

While permanent life insurance does offer growth potential, clients should understand that several charges are assessed to their premiums before contributions reach the cash value portion of their policy:

- Charges and fees associated with premium payments may in many cases be higher than the purchase payments for a capital asset or a 401(k).
- There are charges associated with maintaining the death benefit that do not exist in capital assets or many retirement income assets.
- Life insurance is priced around a mortality charge determined by age, gender and general health of the insured.

2. Death benefit

Clients' premiums pay for a life insurance policy's income tax-free death benefit – the primary purpose of this tool. If the insured dies, the death benefit can provide:

- Money for beneficiaries at a time when they need it the most – for income replacement and debt reduction or estate planning.
- Replacement value for assets going to a charity.
- Estate equalization for a family business.
- A strategy to transition a business to someone else.

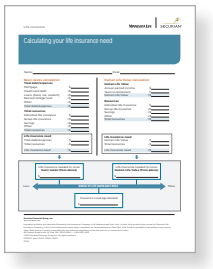
In some respects, the death benefit could be considered this asset's value, though the insured must die in order for this value to be realized. If the tool's value is realized in this manner, there are no estate taxes unless the:

- Proceeds are includable in the insured's estate.
- Insured possessed any incidents of ownership.
- Proceeds are payable to or for the benefit of the insured's estate.

In addition, life insurance will not be taxed as income unless the policy:

- Fails to meet the definition of life insurance.
- Is transferred for valuable consideration and no exception applies.
- Is employer-owned and does not qualify for an exception under Section 101(j).

Helping clients evaluate their life insurance needs



Clients should consider the following questions when choosing life insurance:

- Do I need life insurance?
- What type of policy is ideal for my family/circumstances?
- Is my current coverage enough to provide for my family if I die?
- How can I ensure my family enjoys life at our current standard of living?
- What other benefits could enhance my policy?

There are several ways to determine how much life insurance your clients need. Use the worksheet "Calculating your life insurance need," (F75615-3) to determine your clients' basic needs and human life value. Or download our Human Life Value App (F75615-13).



3. Cash value

While clients see the value in a life insurance policy's death benefit, they often don't fully appreciate and understand the cash value component of permanent policies. **Understanding cash value accumulation is key to realizing the full value of life insurance as a financial tool.** A well-funded policy that has good performance throughout the life of the contract can potentially:

- Act as an Opportunity Reserve when clients need additional funds.
- Provide supplemental retirement income.
- Potentially lower clients' average tax rates in retirement.

Cash value can be used at any age

- **Before age 59½:** no penalties for accessing the cash value
- **Age 62:** no effect on Social Security benefits by accessing the cash value for supplemental retirement income (as long as the policy maintains its tax-preferred status)
- **Age 65:** no effect on Medicare Part B premiums by accessing the cash value for supplemental retirement income (as long as the policy maintains its tax-preferred status)
- **Age 70½:** no required minimum distributions (unlike qualified plan or IRA assets)

Opportunity Reserve during your clients' working years

Cash value in a life insurance policy can be an income tax-free private reserve for certain life events, including:

- Providing money to start or continue a business.
- Paying tuition.
- Helping fund a child's wedding.
- Funding for that "once in a lifetime" purchase.

Distributions from permanent life insurance policies

Understanding how distributions are made and their tax treatment is important to knowing how and when clients should take them.

‘Partial surrenders’ and ‘policy loans’ – what’s the difference?

Clients can withdraw money from their policy’s cash surrender value by requesting a **partial surrender** – up to the amount of premiums they’ve paid – tax-free. This reduces the policy’s accumulation value and the policy’s death benefit. Because of the Internal Revenue Code (IRC) tax treatment of distributions from life insurance contracts – first in, first out – clients can withdraw the basis first before they take out the gain. Once a client has withdrawn the basis from a life insurance contract, any further withdrawals would cause taxation at ordinary income tax rates.

In order to avoid taxation on the distributions above and beyond the cost basis, a client can **borrow money from the life insurance company** using the gain in the policy as collateral. Since an obligation to repay the loan remains, a loan does not cause taxation to the policyholder.

Policy loans and withdrawals may create an adverse tax result in the event of a lapse or policy surrender, and will reduce both the surrender value and death benefit.

How are withdrawals taxed?

In general, withdrawals from a policy’s cash value are not taxed until the owner’s entire investment in the contract has been withdrawn. There are three exceptions to this rule:

1. The policy doesn’t fit within the definition of life insurance.
2. The policy is a modified endowment contract.
3. A withdrawal occurs in the first 15 years with a reduction in benefits.

If all contributions to the contract have been withdrawn, any future withdrawals will be subject to income tax.

How are policy loans taxed?

Policy loans taken from a life insurance policy are not taxable unless the policy is a modified endowment contract.[2] If the insured dies while the loan is outstanding, the loan will be repaid out of the death benefit and no taxation should occur. Please remember, there may be tax ramifications if the policy is surrendered, lapses or is exchanged while a loan is outstanding.

What are the tax ramifications if the policy is surrendered?

If the policy is surrendered, then the cash value will be taxable as ordinary income to the extent that it exceeds the owner’s contributions to the contract.[3] Any loss incurred is non-deductible and a personal expense. In addition, loan balances in excess of the owner’s contribution to the policy may also be taxed upon a full surrender.

How is the internal cash value buildup taxed?

Generally, any increase in the cash value of a life insurance policy is not subject to current income taxation as long as the policy meets the statutory definition of life insurance. However, if a policy does not meet the definition, any increase in the cash value will be taxed as ordinary income annually as received or accrued by the policyholder.[4]

Accumulation options

Depending on the type of policy, there are several different cash value accumulation options. Use these talking points to help explain the differences to your clients:

Fixed

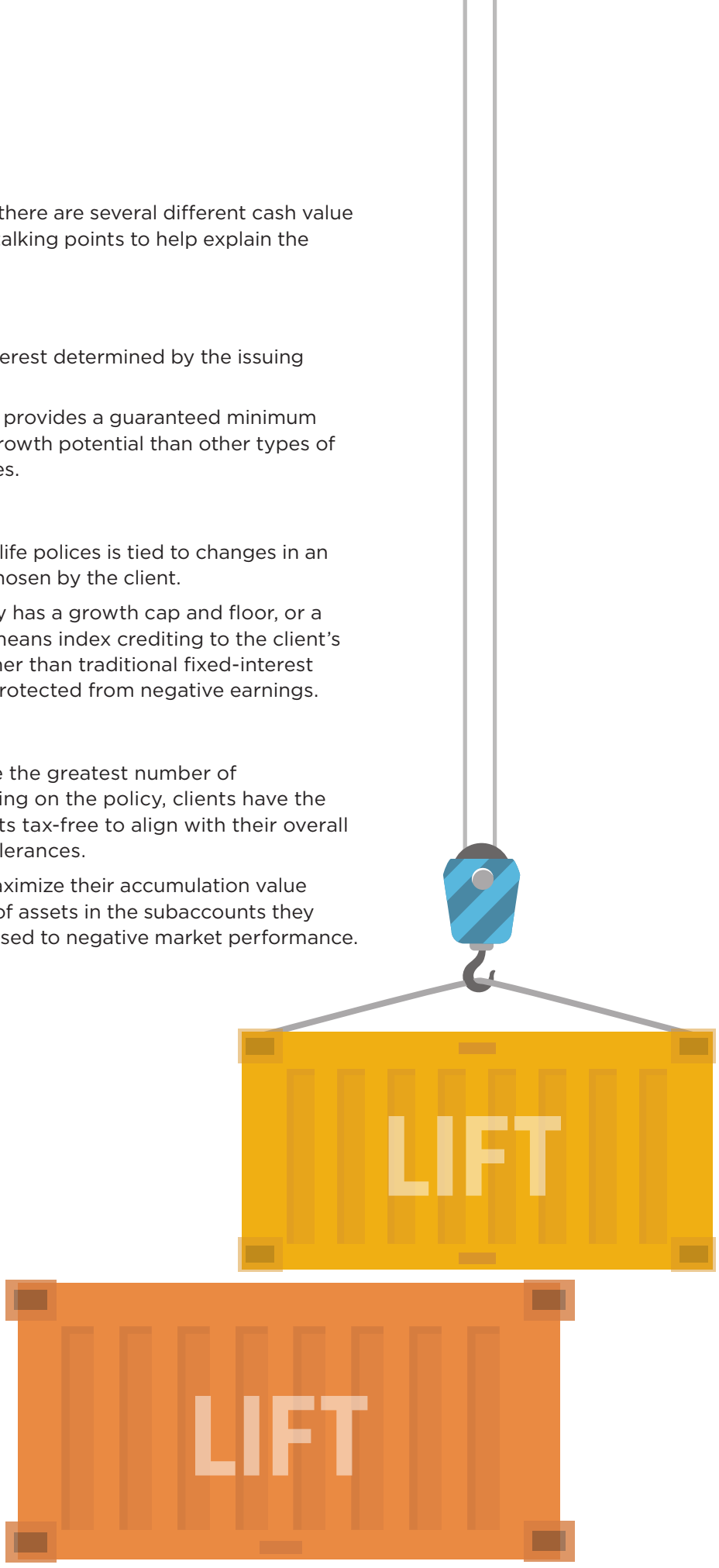
- Fixed interest policies credit interest determined by the issuing insurance company.
- A fixed crediting option usually provides a guaranteed minimum interest rate, but offers lower growth potential than other types of permanent life insurance policies.

Indexed

- Crediting for indexed universal life polices is tied to changes in an indexed account or accounts chosen by the client.
- The crediting potential typically has a growth cap and floor, or a maximum and minimum. This means index crediting to the client's policy could potentially be higher than traditional fixed-interest policies, and the client is also protected from negative earnings.

Variable

- Variable life policies often have the greatest number of accumulation options. Depending on the policy, clients have the ability to rebalance subaccounts tax-free to align with their overall portfolio objectives and risk tolerances.
- Clients have the potential to maximize their accumulation value by tying it to the performance of assets in the subaccounts they choose – yet they are also exposed to negative market performance.



Designing a **tax-favorable retirement strategy**

Now let's apply this discussion to designing a tax-favorable strategy for your clients' retirement. During their retirement years, clients may look to take withdrawals or loans from their policy to supplement their retirement income. If they have a tax-diversified asset mix and use tax-preferred financial tools, your clients have the potential to lower their average tax rate in retirement.

Filling the retirement income gap

Clients will have a retirement income gap if their desired retirement income is greater than what will be provided by their existing financial tools. Your objective is to help them fill that income gap as tax efficiently as possible.

Desired retirement income

Required retirement income Income clients are obligated to receive (Required minimum distributions, pension income, Social Security payments, etc.)	**Retirement income gap** Additional income needed to enjoy the retirement clients want

Identifying the retirement income gap is a three-step process:

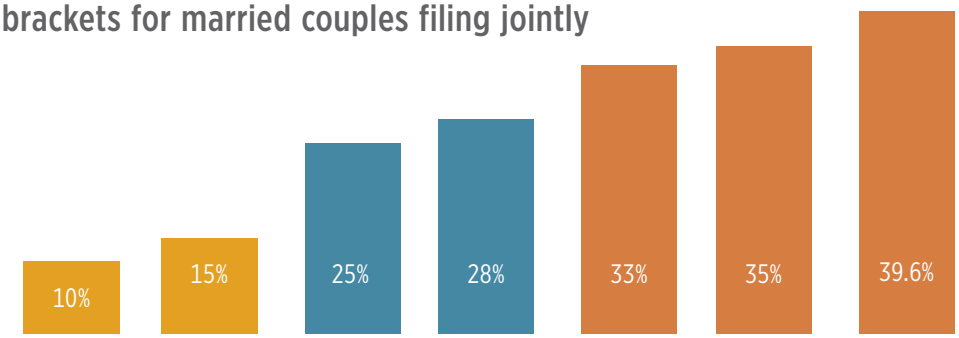
STEP 1 Calculate **desired retirement income**	Monthly retirement income needs (food, shelter, medical, etc.)
	+ Monthly retirement wants (vacations, hobbies, etc.)
	= Desired retirement income
STEP 2 Subtract **required retirement income**	**-** Required income (Social Security, RMD's, pensions, etc.)
STEP 3 Uncover the **retirement income gap**	**= Retirement income gap from three financial tools**

Tax brackets

How your clients fill their retirement income gap will effectively lower or increase their tax rates. The tax brackets below show:

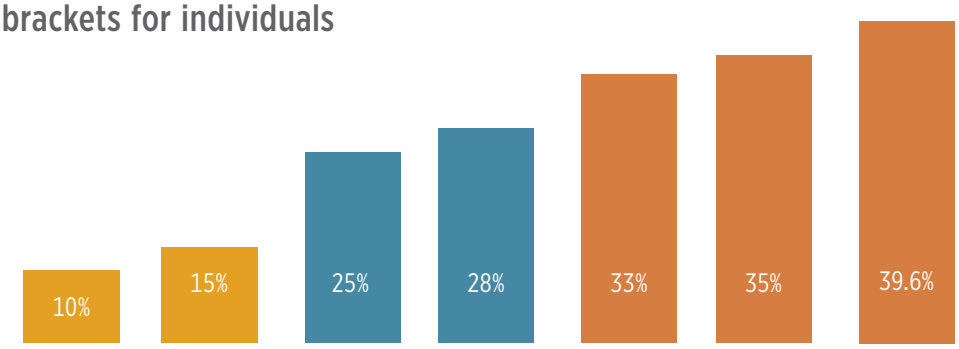
- **Marginal tax rates,** or the tax rate for each income bracket.
- **Effective tax rates,** or the average tax rate that applies to the income for a specific bracket, including all income below that bracket.

2016 Tax brackets for married couples filing jointly



Bracket	First $18,550	$18,551 to $75,300	$75,301 to $151,900	$151,901 to $231,450	$231,451 to $413,350	$413,351 to $466,950	$466,951 +
Marginal tax rate	10%	15%	25%	28%	33%	35%	39.6%
Effective tax rate	10%	13.8%	19.4%	22.4%	27.1%	28%	>28% <39.6%

2016 Tax brackets for individuals



Bracket	First $9,275	$9,276 to $37,650	$37,651 to $91,150	$91,151 to $190,150	$190,151 to $413,350	$413,351 to $415,050	$415,051 +
Marginal tax rate	10%	15%	25%	28%	33%	35%	39.6%
Effective tax rate	10%	13.8%	20.4%	24.3%	29%	29%	>29% <39.6%

One aspect you may recognize is that income taxes are paid at different levels. For example, married couples filing jointly pay 10 percent of the first $18,550 of taxable income, so 10 percent is their **marginal tax rate.** If they receive more income, they will pay taxes at a rate defined by the next tax bracket.

Because taxpayers have different tax rates depending on their income, another way of looking at tax rates is the **effective tax rate.** For example, if a taxpaying couple had taxable income of $75,300, their average highest tax rate would be 13.8 percent (10 percent on the first $18,550 and 15 percent on the next $56,750).

Case study

Let's demonstrate how using the LIFT approach can help clients potentially lower their taxes in retirement using a case study of two couples:

- **One couple stuck in their tax brackets**



- **One couple with a tax-sensitive distribution strategy**

Each couple puts away the same amount for retirement, but they allocate assets differently among the tools. Some contributions were made to qualified plans.

• Taxpayers "stuck in their tax bracket"

The first couple chooses to protect their family's dreams, aspirations and accumulated wealth with **term life insurance** until it runs out. They focus solely on capital assets and retirement income assets to fund their retirement.

Desired income: $100,000

Required income: $75,300. Note "required income" includes income clients are obligated to receive due to automatic payments (e.g., pensions) or tax law (e.g., Required Minimum Distributions starting at age 70½).

Retirement income gap: $24,700, which will be filled using their capital asset or retirement income toolbox.

Net worth: Includes only capital assets (investments and real estate) and retirement income assets (qualified assets).

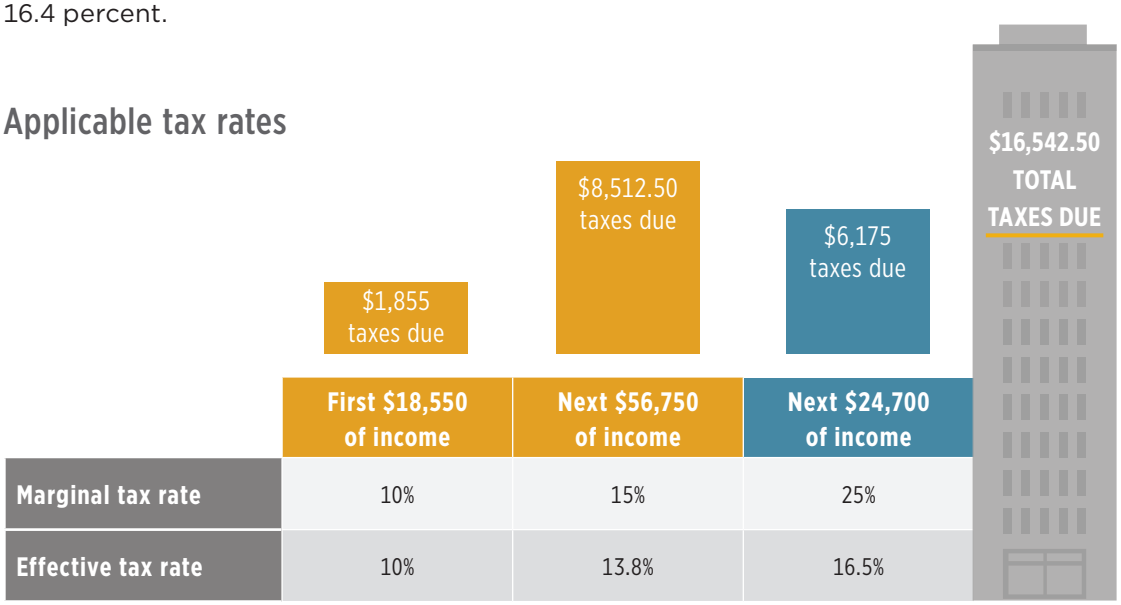
Achieving desired income

The **taxpayers "stuck in their tax bracket"** decide to take dollars out of their retirement income toolbox to cover their income gap.

	Desired income of $100,000	Source of income
Required income	$75,300	Social Security and Required Minimum Distributions (RMDs)
Income gap	$24,700	Filled with only retirement income assets (taxed at ordinary income rates)

Taxes for "stuck" married couple

This couple will pay taxes on the first two tax brackets and some ($24,700) in the 25 percent brackets. Their total taxes due will be $16,392.50 and effective tax rate is 16.4 percent.



	First $18,550 of income	Next $56,750 of income	Next $24,700 of income
Marginal tax rate	10%	15%	25%
Effective tax rate	10%	13.8%	16.5%

Taxpayers with a tax-sensitive distribution strategy

The second married couple has the ability to design a tax-sensitive distribution strategy, because they are using **permanent life insurance** to protect their family and their wealth. Just like the previous couple, their desired income is $100,000 and their required income is $75,300. **However, they have the flexibility to take out $24,700 from any of the three financial toolboxes.**

This year, they decide they want to be as tax-efficient as possible and will take dollars from a tax-preferred toolbox to fill their income gap.

Net worth: Includes assets from all three financial tools: capital assets, retirement income and tax-preferred.

Achieving desired income

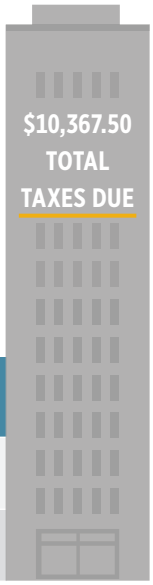
The taxpayers with a tax-sensitive distribution strategy desire to be as tax-efficient as possible.

	Desired income of $100,000	Sources of income
Required income	$75,300	Social security and RMDs
Income gap	$24,700	Filled with income from a tax-preferred asset (cash value life insurance)

Taxes for "tax-sensitive" married couple

This couple will pay taxes in the first two tax brackets only. Their total taxes due will be $10,367.50, and their effective tax rate is 10.4 percent.

Applicable tax rates



$1,855 taxes due

$8,512.50 taxes due

$0 taxes due

	First $18,550 of income	Next $56,750 of income	Next $24,700 of income
Marginal tax rate	10%	15%	25%
Effective tax rate	10%	13.8%	10.4%

Results

In this case, the **second couple has a tax savings of $6,025 and a decrease in the effective tax rate of 6.0 percent** compared to the other couple:

	Taxes due		Effective tax rate	
	"Stuck" couple	"Tax-sensitive" couple	"Stuck" couple	"Tax-sensitive" couple
First $18,550 (10% marginal tax rate)	$1,855	$1,855	10%	10%
Next $56,750 (15% marginal tax rate)	$8,513	$8,513	13.8%	13.8%
Next $24,700 (25% marginal tax rate)	$6,025	**$0**	16.5%	**10.4%**

Tax savings: $6,175

Decrease in effective tax rate: 6.0%

This is a hypothetical example for illustrative purposes only. Because the couple who are "stuck in" their tax bracket have purchased a portion of their retirement assets with pre-tax dollars, they may have accumulated more assets for retirement, thereby allowing them to take larger withdrawals.

A versatile financial tool

Positioning life insurance as protection for family and accumulated assets can be part of every financial strategy. For clients who are in a position where they may no longer contribute to qualified plans and other retirement vehicles due to income-based restrictions, additional dollars into a permanent life insurance policy provides additional benefits:

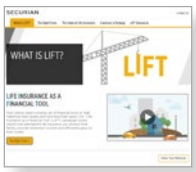
- ✔ Stronger policy
- ✔ Less risk of lapse
- ✔ More dollars into tax-advantaged growth
- ✔ Opportunity Reserve for future investment or purchase opportunities
- ✔ Tax-preferred access to cash value
- ✔ A source of cash to fill a retirement income gap and decrease taxable income



LIFT campaign marketing materials

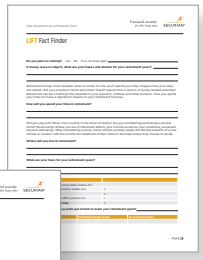
Now that you have a better understanding of the versatility of life insurance as a financial tool, use the resources below to promote these ideas and present the LIFT concept to your clients:

LIFT Microsite
Your one-stop-shop to learn about LIFT sales strategies and view client materials - including our LIFT Calculator and videos. **Visit securian.com/LIFT** for these and other resources.

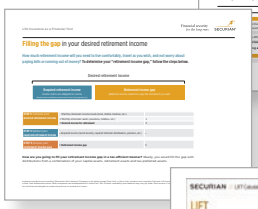


LIFT Advisor Guide (this is the advisor guide - F82833)

LIFT Fact Finder (F82833-1)
Helps your client take inventory of their financial tools and sort them into "capital assets," "retirement income assets" and "tax-preferred assets."



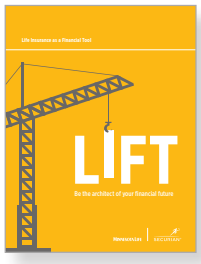
"Filling the gap in your desired retirement income" flyer (F82833-2)
Helps your clients determine their retirement income gap and shows them how life insurance can help reduce their taxes as they fill that gap.



LIFT Calculator
Demonstrates how using permanent life insurance and other assets can lower or raise your clients' effective tax rate.



LIFT Consumer Brochure (F82833-6)
Helps you show your clients the benefits of permanent life insurance in addition to the death benefit. It discusses the taxation aspects of premium, cash value and death benefit in the same light as similar taxation attributes of other financial tools, such as 401(k)s, IRAs, qualified plans, annuities and more.



LIFT Client Videos
Helps clients understand how permanent life insurance can be a key tool in each phase of life (accumulation, distribution and estate maximization).



LIFT Client Presentation (F82833-9) and **Invitation** (F82833-19)
Closely follows the LIFT Consumer Brochure, so you can discuss how life insurance can be a viable financial tool for supplementing retirement income.



Whether your clients are in the accumulation, retirement or estate maximization phase of life, the right mix of financial tools can help them minimize taxes and maximize their assets.

TO LEARN HOW permanent, cash value life insurance can help build a secure financial future for your clients and their families, contact your Life Sales Support Team today:

- 1-877-696-6654
  (Securian and Broker-Dealer Partners)

- 1-888-413-7860, option 1
  (Independent Brokerage)

Working together to help protect your clients – and their retirement income

Life insurance plays an important role in protecting your clients and providing supplemental retirement income. Policies from Minnesota Life and Securian Life, a New York authorized insurer, are not only backed by experience and financial strength – they're backed by a company that believes in treating policyholders like partners. We understand the importance of treating our loyal policyholders well, and we demonstrate our commitment to them by offering new agreements and policy features whenever possible.

Whether your clients are purchasing a new policy or making changes to one they currently own, choose a policy backed by a company that shows how much it cares about them.

We are SECURIAN

You may not have heard of us. Boasting is not our strong suit. But we are one of the nation's largest and strongest financial services providers. Securian provides retirement solutions, investments and insurance through our subsidiaries, including Minnesota Life. Minnesota Life issues our life insurance policies[5] and has been a respected presence in the industry for more than a century.

For more information about the rating agencies and to see where our ratings rank relative to others, visit securian.com/ratings.

WE ARE

A highly rated company headquartered in St. Paul, Minnesota.

WE DO

What's right. Our strong record of transparency, compliance and ethical conduct sets us apart.

WE ARE

A trusted long-term partner with a laser-sharp focus on helping people reach their goals – now and in the years ahead.

[1] IRC Sec. 264(a), Treas. Reg. Sec. 1.262-4(B)(1).

[2] IRC Sec. 72(e)(5).

[3] IRC Secs. 72(e)(5)(A) & 72(e)(5)(E), Treas. Reg. Sec. 1.72-11(d)(1). See also IRC Secs. 61(a) & 72(a), Cohen v. Commissioner, 39 TC 1055 (1963), and Rev. Rul. 2009-13.

[4] IRC Sec. 7702(g).

[5] In all states except New York. In New York, policies are issued by Securian Life Insurance Company, a New York authorized insurer. Product availability and features may vary by state. Each insurer is solely responsible for the financial obligations under the policies or contracts it issues.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender periods. Variable life insurance products contain fees, such as management fees, fund expenses, distribution fees and mortality and expense charges. The variable investment options are subject to market risk, including loss of principal.

Policy loans and withdrawals may create an adverse tax result in the event of a lapse or policy surrender, and will reduce both the surrender value and death benefit.

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