

Annuity Max

OPPORTUNITY FINDER - TAX-EFFICIENT WEALTH TRANSFER PLANNING

CLIENT PROFILE

- Retirees (ages 60 and older) and generally healthy
- Own a deferred annuity, but retirement income needs are fully met through other sources
- Has earmarked annuity assets for a personal or charitable beneficiary
- Is interested in tax-efficient strategies for wealth transfer – especially if estate taxes are an issue

CONCEPT BRIEF

After years of hard work and sound financial decisions, some clients arrive at retirement with more than enough assets to provide for a comfortable lifestyle. They may start mentally earmarking a particular asset for their beneficiaries – for example, a deferred annuity they no longer need for retirement income. Although a deferred annuity is a great vehicle to accumulate funds for retirement, it is not an efficient vehicle to transfer wealth. Deferred income will be subject to income tax at death, and if the clients are subject to federal or state estate taxes, income from the annuity may be taxed again. Using annuity maximization, assets from the annuity can be repositioned to maximize the value received by the beneficiary.

HOW IT WORKS

The annuity owner establishes an individual life insurance trust (ILIT), which applies for a life insurance policy on the owner's life.

The owner begins annual distributions from the annuity to fund the life insurance. The client has two choices.

A. Convert the annuity to a single premium immediate annuity (SPIA)

Each SPIA payment is partially tax-free until the basis is exhausted, and fully taxable thereafter. The income can be guaranteed to continue for either a set number of years or for the owner's lifetime.

B. Take withdrawals from the deferred annuity

Each withdrawal is fully taxable until all the gain has been taken, and consists of tax-free return of basis thereafter. Depending on the withdrawal rate, the annuity may be depleted during the owner's lifetime.

Determining which method is best depends entirely on your client's preference. The risks, benefits and cost of conversion or withdrawals from an annuity should be considered before making a decision.

ADVANCED
MARKETS



Clients have two choices
from the annuity:



Convert to SPIA



Take Withdrawals

LET'S TAKE A CLOSER LOOK

Jane is a 70-year-old woman who owns a nonqualified annuity currently valued at \$500,000 with an original basis of \$200,000. Assuming the annuity value grows at 4%, if death occurs at age 85, how much of the annuity will the beneficiaries keep after taxes?

Annuity Value at Age 85: \$900,470
Taxable IRD: \$700,470
Income Tax Due at 35%: \$245,165
Net to Heirs: \$655,305

Alternatively, Jane exchanges the deferred annuity to a life-only SPIA which generates \$33,187 of annual income, of which 36.5% is tax free. If she uses the after-tax annuity income to fund a life insurance policy, how much death benefit will her heirs receive tax-free?

SPIA Gross Income: \$33,187
Income Tax Due at 35%: \$7,376
After Tax SPIA Income: \$25,811
Life Insurance Premium: \$25,811
Tax-Free Death Benefit: \$1,013,060

CONVERSATION STARTER

Among your retirement assets, you own a deferred annuity, but you're unlikely to actually use it because your income needs are well covered by other sources. Who do you have in mind as beneficiary for that annuity? Would you like to analyze an opportunity to avoid taxes due upon death? By repositioning your deferred annuity you could potentially enhance the value passing to that beneficiary.

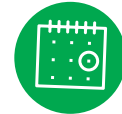
NEXT STEPS

1. Identify clients you currently serve who have a strong retirement income plan and whose assets include deferred annuities
2. Schedule an appointment to discuss their wealth transfer plans
3. Discuss how tax efficiency of asset transfer plays a significant role in how they can leverage their wealth transfer plan and offer a client analysis
4. Gather pertinent information regarding the annuity value and general health of the client and share this information with your Ash team

Take Action:



Identify Clients



Schedule
Appointment



Client
Discussion



Gather and
Share Info