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Annuity maximization

Advanced Markets

Increasing wealth transfer using deferred annuity distributions

Meet Sandra

- Age 65
- Nearing retirement
- Three grown children

Sandra has a deferred nonqualified annuity value of $700,000 and an initial annuity deposit of $600,000. She has sufficient income from her pension, Social Security and other investments, doesn't need her annuity for retirement income and plans to transfer her annuity to her children after her death.

Do you have clients like this?

- Ages 60-85
- Own deferred annuities, but they are not needed for retirement goals
- In a high income tax bracket with a desire to pass maximum wealth to beneficiaries
- Have a desire to provide beneficiaries with wealth replacement to cover annuity assets lost to estate and income taxes

The problem:

Income and possible estate taxation may significantly reduce the value of the annuity passed on to Sandra's beneficiaries. The forecasted value of Sandra's annuity after her death at life expectancy at age 88 is $2,673,825,[1] based on an assumed rate of return of 6%.[2] There is the potential of the IRS taking 62% of this value, based on projected estate and income tax rates and assuming Sandra's total estate would subject her to federal estate taxation. This would result in $1,659,463 owed to the IRS.[3]

1 Based on the 2017 CSO Table.

2 This rate is assumed to be after-tax and is no guarantee of future growth. When using this strategy, clients should expect fluctuations in return that may affect the amount available for withdrawal. There is no guarantee that the variable annuity will provide the necessary premium to fund the life insurance policy. This example ensures the withdrawals from the annuity are all growth, which is income taxable; any return of premium withdrawn from a nonqualified annuity is not taxable.

3 The policy premium and death benefit amounts used for this case are intended only to help demonstrate the planning concept discussed and not to promote the sale of a specific product. The rates are broadly representative of rates that would apply for a policy of this type and size for insureds of good health in the ages mentioned. To determine how this approach would work with your clients, individual illustrations should be prepared or requested for your review. If different rates were used, there might be significantly different results.

A potential strategy

Reposition Sandra's deferred annuity asset and purchase life insurance.

Here's how it works:

1 Sandra takes an annuity withdrawal of $50,000 ($35,000 after tax, assuming a 30% tax bracket) for 23 years.[2]

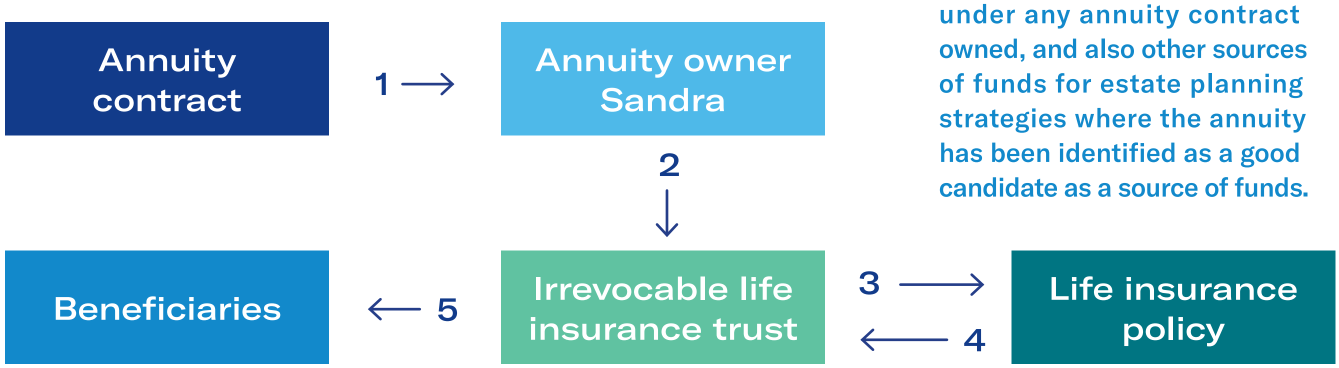
2 After-tax annuity withdrawals are gifted to a beneficiary or the irrevocable life insurance trust (ILIT).

3 The ILIT purchases a life insurance policy with initial face amount of $1,800,000.

4 After death, the death benefit is paid to the ILIT and, structured properly, will be income tax-free and not included in Sandra's taxable estate.

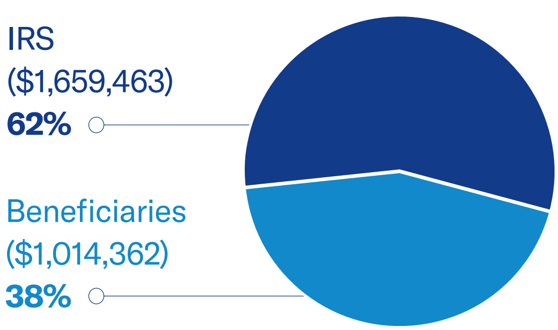
5 The ILIT assets then pass to the beneficiaries per trust provisions. Any unused annuity balance passes to designated beneficiaries. These assets are included in Sandra's taxable estate, and any growth is subject to income taxation when distributed to her beneficiaries.

The client has considered any guaranteed benefit features or guaranteed life annuity options under any annuity contract owned, and also other sources of funds for estate planning strategies where the annuity has been identified as a good candidate as a source of funds.

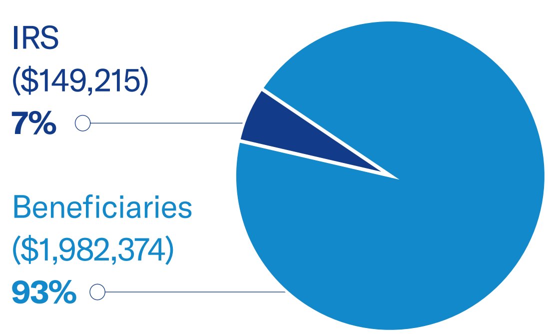


By using the annuity maximization strategy, Sandra is able to use an unneeded double tax asset to pay for a life insurance policy that helps her transfer wealth untouched by taxes. In doing so, she would be able to transfer an additional $968,012 to her children if she were to pass away at her life expectancy of age 88.[3]

Current plan at death



Proposed plan at death



For more information, please call
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