MAXIMIZING THE POTENTIAL OF AN ANNUITY WITH AN INSURANCE POLICY

How a soon-to-retire woman created more wealth for her heirs with one simple step.

As Jillian's retirement approached, she started to think more about not only her next 30 years, but also the years when she would no longer be there for her heirs. Concerned that she wasn't optimizing her wealth to one day pass on, Jillian made an appointment to meet with her financial advisor.

After consulting with her advisor, Jillian learned that she could use her annuity to help fund an insurance policy. By doing so, she'd be able to avoid certain ordinary income and estate taxes on the annuity and create more wealth for her heirs.

> By making that one simple change, Jillian is creating greater potential wealth for her heirs. Since meeting with her advisor, Jillian has encouraged other friends and family members on how they can do the same.*

*This is a hypothetical illustration and is not intended to reflect any actual outcome.

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Transfer greater wealth to your heirs

A successful financial plan is designed to support your retirement years as well as leave wealth to your heirs. While a deferred annuity is a great way to accumulate funds for your retirement, it is not as efficient in transferring wealth as compared to other vehicles. Essentially, an annuity is taxed twice upon death. Once on the annuity gains, which are subject to ordinary income tax, and then a second time as part of your taxable estate. The tax implications could erode a significant portion – as much as 70% – of the annuity, leaving your heirs only a fractional amount. A solution to this problem is to maximize, or reposition, the annuity by funding an insurance policy.

ANNUITY MAXIMIZATION: HOW DOES IT WORK?

The strategy of annuity maximization is similar to repositioning the assets in an investment portfolio. By using the annuity to fund a life insurance policy, you can potentially increase the amount of money left to your heirs.

The first step is to create an income stream from the annuity by converting it to a single premium immediate annuity (SPIA), or alternatively, by taking withdrawals as permitted under your annuity's terms. This process allows you to fund the insurance with after-tax annuity distributions. It's recommended you speak with your financial advisor in determining if a SPIA conversion or taking withdrawals is the best option for you. A SPIA generally creates a larger potential income stream, while the withdrawals option allows you to retain the principal of the annuity.

Problem

Annuities can be subject to two taxes at death – ordinary income tax and an estate tax

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Possible Solution

Maximize the annuity by converting to a SPIA or take annuity withdrawals; use distributions to fund life insurance

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Result

Transfer greater wealth to your heirs through more tax-efficient life insurance policy

Removing funds from an annuity may result in surrender charges and/or income taxes. Changes in tax laws or regulations may occur at any time and could substantially impact your situation. You should discuss any tax or legal matters with the appropriate professional.

CASE STUDY: JILLIAN MALONE

CLIENT: Jillian Malone

STATUS: Age 62, preferred non-smoker, 30% tax bracket. She owns a deferred annuity of $750,000 growing at 5% annually (cost basis of $400,000). Jillian takes annual withdrawals of $21,600 after taxes.

PRODUCT: She purchases a $2.2 million life insurance policy with a $21,600 premium.

COMPARISON OF VALUES IN YEAR 30

		Current Strategy	Proposed Strategy
Annuity Today		$750,000	$750,000
Annuity Cost Basis		$400,000	$400,000
Total premiums paid by year 30			$648,000
Annuity in year 30		$3,241,457	$1,088,848
Income in respect of decedent taxes	–	$852,437	$206,654
Death benefit in year 30	+		$2,200,000
Net to heirs in year 30	=	$2,389,020	$3,082,194
Potential gain due from planning			$693,174

The figures used in this case study are hypothetical, for discussion purposes only, are not guaranteed and may not be used to project or predict results. Actual results may be more or less favorable. Specific product and policy elements would be found in a policy illustration provided by an insurer. With any decision regarding the purchase of life insurance, a client would need to determine which type of life insurance product is most suitable for their specific needs.

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