Annuity Legacy MAX

An advanced solution to help reduce estate taxes and increase the amount of money that is passed on to heirs.

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Our Goal is Your Legacy ®

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Annuity Legacy Maximization

Concept Profile

In recent years the trend of the economic markets has not been as extraordinary as years past. This has caused some people to cut back on the monetary gifts they hand out each year to family members according to a recent Wall Street Journal article. People are concerned that they will not have enough money to maintain their current lifestyle and prefer to pass along remaining funds to children at death. However, this causes another problem, the reduction of assets due to federal and state inheritance taxes as well as income and capital gains taxes. Now is a great time to put a plan in place that can help solve this problem. One asset that is often neglected during retirement, because it may not be needed, is a deferred annuity. It is a great way to fund a wealth transfer plan.

Using Deferred Annuities

People often purchase a deferred annuity as a way to supplement retirement income. Despite recent market trends, they may not need to use the annuity for income during retirement and elect to leave it in the estate for the next generation, this is not a good idea. An annuity is subject to both income and estate taxes at death, which may erode the annuity by up to 70 percent. A better way to use the annuity is to leverage it to fund a life insurance policy inside of a trust, which is where Annuity Legacy Max provides a great solution.

Legacy Maximization

Annuity Legacy Maximization is a simple solution, in which a deferred annuity is converted to a single premium immediate annuity (SPIA) and the after-tax distributions are used to fund a life insurance policy inside of an irrevocable life insurance trust (ILIT)[1]*. Annuity Legacy MAX also works by taking withdrawals from the deferred annuity and using them to fund the life insurance policy.*

How Does It Work?

There are two ways to leverage an annuity: the client may convert it to a single premium immediate annuity or may take withdrawals.

<u>Converting the annuity</u>

The client converts the annuity into a single premium immediate annuity (SPIA) to provide a steady stream of income. This is gifted to the irrevocable life insurance trust (ILIT) via annual exclusion gifts. The trust will then purchase the life insurance policy on the lives of the clients.[2]

<u>Withdrawals from the annuity</u>

The second option is to take withdrawals from the existing annuity and fit the portion to the ILIT equal to premium payments. Any additional income may be spent or gifted to the trust.[3]

Deferred Annuity vs. Life Insurance

	Deferred Annuity	Life Insurance Trust
Estate Taxes	Yes	No
Income Taxes	Yes	No
Withdrawal Restrictions	Yes	No
Distribution Penalties	Yes	No

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The following is a comparison of your current traditional annuity and Legacy Max. Legacy Max can help reduce estate taxes and increase the account value that is passed on to your heirs.

You can take withdrawals from your traditional annuity to pay the premiums on a life insurance policy which will reposition your asset and allow your beneficiaries to receive the death benefit income tax free and potentially avoid estate taxes upon your death.

Current Annuity Value: $1,000,000

Continue Annuity

Minimum Distributions

Projected Annuity Value $1,306,123

Reinvested Distributions $883,291

Estate Tax $1,204,178

Income Tax $164,572

Net Value to Heirs $820,665

Rollover Annuity to SPIA

Purchase $1,866,878 Life Insurance

Projected Insurance $1,866,878

Estate Tax $0

Income Tax $0

Net Value to Heirs $1,866,878

Advantage for Heirs

$1,046,213

The annuity illustrated does not reflect applicable sales and management fees or administrative costs charged by the current issuer. The charges, if included, would affect the figures illustrated. The assumed rate of growth of the Annuity is 5%.

The estate tax calculation shown in this illustration are based upon the estimated size of your estate and the estate tax rates found in Section 2001 of the Internal Revenue Code. All rates illustrated are subject to change. Calculations assume use of the Unified Credit and assume no marital deduction is available. Estate tax calculations reflect the Economic Growth and Tax Relief Reconciliation Act of 2001 resulting in reduced estate taxes in 2002 through 2009 and elimination of the estate tax in 2010. In year 2011 and beyond, the calculations assume the estate tax law in place prior to the Act. Unless new legislation is passed, the Act will be repealed in 2011 and estate tax in effect prior to the Act will be reinstated.

Either the total annuity payment, the after tax payment or a specified amount can be used as premium toward the life insurance policy.

Calculations assume all premiums qualify for the gift tax annual exclusion. To the extent that this is not true, estate taxes could be understated and gift tax consequences would not be illustrated.

The net surrender value and net death benefit amounts illustrated are based on current policy interest rate and cost assumptions. The values illustrated are not guaranteed. They assume that the illustrated non-guaranteed elements of the policy will continue unchanged for all years shown. This is no likely to occur, and actual results may be more or less favorable than those shown.

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Concept Profile *(continued)*

Why Annuity Legacy Max?

Annuity Legacy Max is a technique that allows people to help maximize the amount of money they pass on to their beneficiaries. An annuity may be subject to a 10% penalty if distributions are taken before age 59 1/2. An annuity may also have a limit on withdrawals during the accumulation period and may be subject to both income and estate taxes upon death. Maximizing an annuity and purchasing life insurance can help to avoid these pitfalls. In addition, if the annuity income is not needed, the life insurance policy can grow tax-deferred with an income tax-free death benefit.

Why Life Insurance?

Life insurance has a number of features that can make it an estate and retirement planning tool, such as:

Tax-Deferred Accumulation: *The potential cash value inside of a life insurance policy accumulates on a tax-deferred basis.*

Income Tax-Free Withdrawals: *Withdrawals from a life insurance policy may be taken income tax free up to the policy cost basis.*[4]

Income Tax-Free Death Benefit: *The death benefit of the life insurance policy is received by the beneficiaries free from income tax.*

Summary

An annuity is double-taxed at death (both income and estate taxes) and may erode by up to 70%. More of the annuity will pass to Uncle Sam than to your loved ones. By following the Legacy Maximization approach, you can ensure that heirs are well provided for while reducing tax liability.

1. Trusts should be created by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping tax). Failure to do so could result in adverse tax treatment of trust proceeds.
2. A portion of the SPIA distribution will be return of principal, which is not subject to income tax. The balance of the SPIA will be included in the client's ordinary income.
3. Most companies allow distributions from an annuity after a certain number of years or once the client (s) has reached age 59 1/2 without penalties or surrender charges. Please check with the annuity company for more information.
4. Loans and withdrawals may reduce the death benefit and will reduce the cash surrender value and may cause the policy to lapse. A lapse or surrender of the policy while loans are outstanding may cause the recognition of taxable income. Loans and withdrawals from life insurance policies that are classified as modified endowment contracts may be subject to tax at the time the loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59 1/2.

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Client Profile

Problem

Age:	60 and older
Concern:	Has (or will have) estate tax exposure

- *Client has a deferred annuity that he or she no longer depends upon for retirement income.*
- *There could be a possible estate tax problem.*

Solution

- *Establish an irrevocable life insurance trust and fund it with a deferred annuity.*

Here Is How It Works

Due to the unique nature of a deferred annuity, holding it until death usually has adverse income and estate tax consequences and lifetime planning is recommended. In reviewing the client's total portfolio, the existing annuity appears to be the best source to fund the ILIT's insurance premiums.

Funding Strategies

Annuitize or withdraw? Depending on the amount of the insurance premium, age, value, and charges applicable to the annuity, either convert the deferred annuity into an immediate annuity and use the annuity payments to fund the insurance premiums or take tax favored withdrawals from the deferred annuity to fund the insurance premiums.

Reaching The Solution Using Annuity Legacy Maximization

Power of the ILIT

Demonstrates how to leverage the annual exclusion gifts using life insurance in an ILIT to create additional liquidity.

Power of Lifetime Giving

Compares the estate and income tax consequences of holding the deferred annuity at death versus using the annuity to fund a lifetime giving program.

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Fact Finder

Client Information

Client Name (First and Last):____________________

Age: ____

Underwriting:__ NS/P__ NS/S__ S/P__ S/S__ Uninsurable

State: ____

Spouse Name (First and Lat): ______________________

Age:____

Underwriting:__ NS/P__ NS/S__ S/P __S/S__ Uninsurable

State:_____

Historical Information

Post-76 Taxable gifts:__________

Prior Gift Taxes Paid:___________

Number of Annual Exclusions: ______

Existing ILIT: _Yes __No

Type of Policy: ________________

Death Benefit: ___________

Premium:__________ Years to Pay:______

Cash Value: ___________

Assets in ILIT's:___________

Advisor Information

Presenter (First and Last name): ____________________

Company: ____________________________

Address: ____________________________

Address 2: __________________________

City: _______ State:__ Zip Code:___________

Phone:__________ Fax: ________________

Email: _________________________

Plan Information

Heir's Name:______________________________

Total Estate Value:

After-Tax Growth Rate of Estate Assets: ________%

After-Tax Growth Rate of ILIT Assets: ________%

Income Tax Bracket: ________%

Income in Respect of Descendent Bracket:________%

Consumer Price Index Rates: ________%

Withdrawals

Current Annuity Value:________________

Cost Basis:

Accumulation rate After-Taxes: ________%

Type:

Schedule: _________________

Annual Exclusion for _______ Years

Default Level Amount:_______________

Any Gift Taxes

Paid from other estate assets: __________

Paid from annuity: ______________

If Annuitize

Current Annuity Value: $ ___________

Cost Basis: $ ___________

Accumulation rate after expenses ________%

Single Premium Immediate Annuity

Type:__ Fixed or ___ Life Only

Fixed Period: _____________

Present value rate (for fixed only):__________

Tax-Exempt Income: _______________

Taxable Income:_______________