



# Are Your Clients Leaving Annuity Policies to Heirs?

If yes, help your clients identify options that could maximize their outcome!

Annuities are often purchased as a safe way to accumulate money for retirement income. An annuity can be an excellent and attractive vehicle for accumulation of wealth because it has a wide range of options as well as the benefit of income tax deferral over time. An annuity has tax-deferred growth and can provide an income stream during a client’s retirement. However, many people end up not needing income from their annuity for their retirement years, and their purpose in retaining the asset may shift from retirement income to estate growth. This could lead to an unexpected and disadvantageous result because annuities may not be the best way for clients to pass assets to their heirs and beneficiaries.

## Why should you be conducting annuity evaluations?

- Identify options to maximize the amount of future money that passes to the clients’ heirs.
- Provide added value to your relationship before another professional raises the concern.
- Identify ways to reduce taxes on the annuity due at death; use of an Irrevocable Life Insurance Trust (ILIT) when estate taxes are a concern.
- Deferred annuities are excellent vehicles for retirement planning, but are not efficient vehicles for wealth transfer.

## What outcomes can you expect from annuity review?

- The client decides to keep the annuity, allowing policy values to grow and paying taxes at death. (See next page - Outcome A)
- Leverage the annuity to provide potentially higher future values for heirs, either tax-free or after-tax. (See next page - Outcome B)
- Leverage the annuity into multiple solutions for potentially higher future values for heirs and/or long term care benefit (LTC) for the client’s future need. (See next page - Outcome C)

### ANNUITY POLICY REVIEW GOALS

**REVIEW**

your clients’ annuity policies

**CONSIDER**

will the clients need the annuity value for income in the future or leaving it for their heirs

**OFFER**

alternative solutions, if appropriate

### GETTING STARTED

#### WITH YOUR CLIENTS

*Questions to Ask*

- Do you own annuities?
- What are your plans for the policies?
- Will you ever need income from the policy?
- How is your current health? Do you have any health concerns or current medications that may impact medical underwriting?
- Would you like to make an appointment to review your options?

#### WITH CBS BROKERAGE

- Use the Annuity Policy Review Fact Finder to obtain information on current policies and original policy design.
- Determine what alternatives fit the client’s goals and objectives: Maximum leverage with life insurance, long term care coverage, and/or maximize accumulation potential using a Fixed Indexed Annuity

## Annuity Policy Review Example

A 70 year old female client in good health living in California<sup>^</sup> has an old \$500K non-qualified fixed annuity (with \$400K of cost basis and assuming a 40% tax bracket). She has built up sufficient assets to meet her desired income for the rest of her life. The annuity now has no income purpose and she plans to let it grow for the rest of her life and leave it to her family at her death. Let's look at some outcomes from an annuity review:

### Outcome A Keep Existing Annuity

Assuming a level 4% net growth rate\* for the next 30 years (through age 100), the accumulation value will grow to \$1,621,699.  
**After-tax to beneficiaries = \$1,133,019**

### Outcome B Move Entire Annuity Into One Alternative Solution (using one of the three options noted)

Reposition \$500K into a life only Single Premium Immediate Annuity (SPIA) with an after-tax income buying a life insurance policy guaranteed to age 100.  
**Tax-free death benefit to beneficiaries = \$1,391,813**  
**Long Term Care (LTC) benefit = \$0**

Reposition \$500K into a life only SPIA with an after-tax income buying a life insurance policy guaranteed to age 100 - ADD LTC rider.  
**Tax-free death benefit to beneficiaries = \$1,131,020**  
**LTC benefit = \$22,620 monthly for 50 months**

Reposition \$500K into a fixed indexed annuity in varying index accounts, and most recent 10-year history recurring for either  
i) **Accumulation - After tax to beneficiaries - \$1,190,019**  
ii) **Death Benefit Paid over five years - After tax = \$2,166,716**

### Outcome C Split Annuity Into Multiple Alternative Solutions to include Long Term Care (LTC) Benefit (using two of the five options)

Reposition \$250K into a life only SPIA with an after-tax income buying a life insurance policy guaranteed to age 100 - NO LTC rider.  
**Tax-free death benefit to beneficiaries = \$688,344**  
**LTC benefit = \$0**

Reposition \$250K into a life only SPIA\*\* with an after-tax income buying a life insurance policy guaranteed to age 100 - ADD LTC Rider.  
**Tax-free death benefit to beneficiaries = \$535,290**  
**LTC benefit = \$10,706 monthly for 50 months**

Reposition \$250K into a life only SPIA\*\* with an after-tax income buying a hybrid life insurance policy with LTC benefit build-in  
**Tax-free death benefit to beneficiaries = \$197,842**  
**LTC benefit = \$7,913 monthly for life (unlimited benefit)**

Reposition \$250K into a LTC annuity with two year base + six years continuation of benefits. **After-tax to beneficiaries = Account value less LTC benefit\*\*\* accelerated from policy until depleted.**  
**LTC benefit = up to \$10,614 monthly for eight years**

Reposition \$500K into a fixed indexed annuity. Using S&P 500 index with a 6.05% cap rate, and most recent 10-year history recurring.  
**After-tax to beneficiaries = \$595,009.73**  
**LTC benefit = \$0**

Because insurance policies may contain varying terms, conditions, and benefits, this analysis is meant to showcase possible solutions. Full illustrations would accompany our review of your client's annuity. <sup>^</sup>Case studies are offered to show how CBS can provide valuable assistance to producers in placing cases. Results may vary. This is an example and does not guarantee a similar result.

\* For illustrative purposes only; not a forecast of future results.

\*\* Systematic withdrawals from existing annuity may be an option.

\*\*\* Accumulation value less LTC benefits end of second year on claim = \$0 Pricing used valid as of 2/1/2019

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