



THE ANNUITY MAXIMIZATION STRATEGY

Strategy Summary

For those with substantial deferred annuity balances and an interest in maximizing the estate they pass on to their loved ones

What is the Annuity Maximization Strategy?

- A strategy designed to increase the amount of wealth passed on to beneficiaries through the purchase of life insurance funded by withdrawals from a deferred annuity
- Withdrawals from an annuity are used to purchase a life insurance policy on the life/lives of the annuity owner(s)
- With the use of life insurance and proper planning, beneficiaries can receive a federal estate tax and income tax-free death benefit that can be used to pay these taxes
 - Funds withdrawn from the annuity can either be gifted to a third party or to an irrevocable life insurance trust (ILIT) before the life policy is bought to ensure that the death benefit from the policy is not included in the annuity owner's estate
 - The funds are then used to purchase a life insurance policy

- Due to the possibility of "double taxation," the amount of wealth passed on from an annuity can be significantly reduced
 - Beneficiaries pay ordinary income tax on all inherited annuity gains when received from the annuities
 - Annuities may also be subject to estate taxes upon death of the annuity owner

Example: Leah Smith

Facts:

- Leah, age 65, is retired and has sufficient assets outside of her annuity to provide for her retirement income needs.
- Leah owns a deferred annuity worth \$800,000, with an original cost basis of \$400,000 that her investment advisor estimates is growing annually at a 4% rate of return.
- Leah's annuity beneficiaries are her two children.
- Her current estate value is \$6 million, and Leah's accountant projects it is growing annually at a 3% rate of return.
- Leah's current federal income tax bracket is 28%, and the current federal estate tax bracket is 35%.

Goals and Objectives:

- Leah wants to maximize the inheritance she passes on to her two children.
- She would also like to provide a source of liquid assets to help her beneficiaries pay any estate taxes that may arise.
- Finally, Leah wants to minimize the potential income and estate taxes attributable to her annuity.

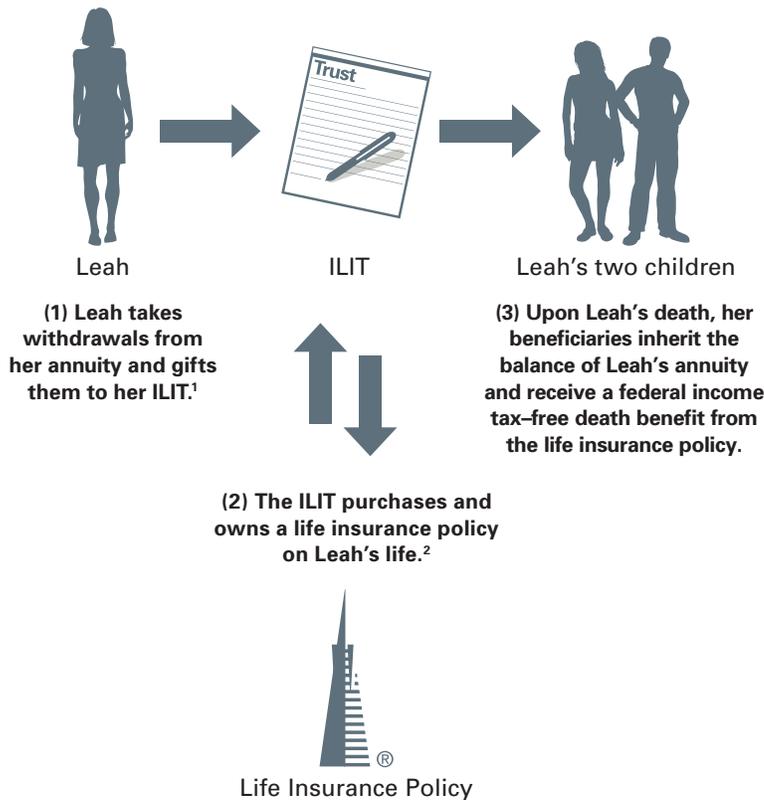
Who is a good candidate for the Annuity Maximization Strategy?

- Individuals with large balances in deferred annuities
- Retirees who do not need the income from or assets in their annuities
- Those interested in creating a significant legacy for the next generation

Why adopt the Annuity Maximization Strategy?

- Annuities are designed to provide retirement income, and not to transfer wealth

Here's how the Annuity Maximization Strategy works:



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Life insurance products:

- Are not insured by FDIC or any federal government agency
- May lose value
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¹ Gift taxes may also be due when making gifts to an ILIT. In addition withdrawals from annuity are subject to ordinary income tax.

² Trust language cannot mandate that trust assets be used to purchase a life insurance policy.

³ Assumes entire annuity fair market value is subjected to estate tax rate of 35%, and excludes estate tax that may be owed with regard to Leah's other assets.

⁴ Estimate includes assumptions of income tax owed by decedents on contract after taking into account the Income in Respect of a Decedent Deduction for federal estate taxes paid on earnings of the annuity.

Annuity Policy Summary – Before

▪ Beginning Annuity Balance	\$800,000
▪ Cost Basis	\$400,000
▪ Assumed Growth Rate	4%
▪ Leah's Age at Death	85
▪ Estate Tax Attributable to Annuity	\$613,514 ³
▪ Total to Beneficiaries without Annuity Maximization Strategy	\$893,156 ⁴

Annuity and Life Policy Summary – After

▪ Life Insurance Policy	TransACE [®]
▪ Annual Premiums	\$27,759
▪ Life Policy Death Benefit	\$1,609,000
▪ Remaining Value in Annuity at Leah's Death	\$558,906
▪ Total to Beneficiaries with Annuity Maximization Strategy	\$1,943,368

