

AN ANNUITY CAN MAXIMIZE YOUR IRA

Maximize your legacy

Qualified funds like individual retirement accounts (IRAs) are a great way to accumulate money for retirement. But when it comes to passing them to your kids, the unpaid taxes pass with them.

What are the problems with passing an IRA to a beneficiary?

- 1. Income in respect of a decedent (IRD):** The unpaid taxes held in qualified funds become your beneficiary's obligation.
- 2. Stretch IRA laws have changed:** With passage of the Setting Every Community up for Retirement Enhancement (SECURE) Act, beneficiaries of an IRA must spend down that asset within 10 years, with only a few exceptions. Prior to this law, beneficiaries inheriting these accounts were able to stretch the required distributions over their lifetime — reducing the annual distributions and lowering taxes due.
- 3. Your beneficiary may be in their highest tax bracket:** When a child inherits an IRA from a parent, they're often older and in their peak earning years, putting them in high tax brackets. Coupled with having to deplete an account within 10 years, the tax impact can be significant.
- 4. These assets may be subject to estate tax:** Retirement assets remain in your estate upon your death, subjecting them to possible estate taxes. Even if you're not currently subject to estate tax, tax laws may change — making individuals with even modest estates potentially subject to estate tax.

Income in Respect of a Decedent (IRD)

Did you know that qualified funds (IRAs, 401(k)s, etc.) hold unpaid taxes that will transfer directly to your heirs to pay?

Solution: Roll your IRA over into a single premium immediate annuity (SPIA) that provides a guaranteed payment to fund a life insurance policy.

The income tax-free death benefit of the policy may be more than the value of the inherited IRA, after taxes.

You can rollover your IRA into a SPIA without tax consequences. The SPIA creates a guaranteed income source to pay the premiums and satisfies all or part of your required minimum distributions (RMDs), while managing your expected marginal tax rate in those years.

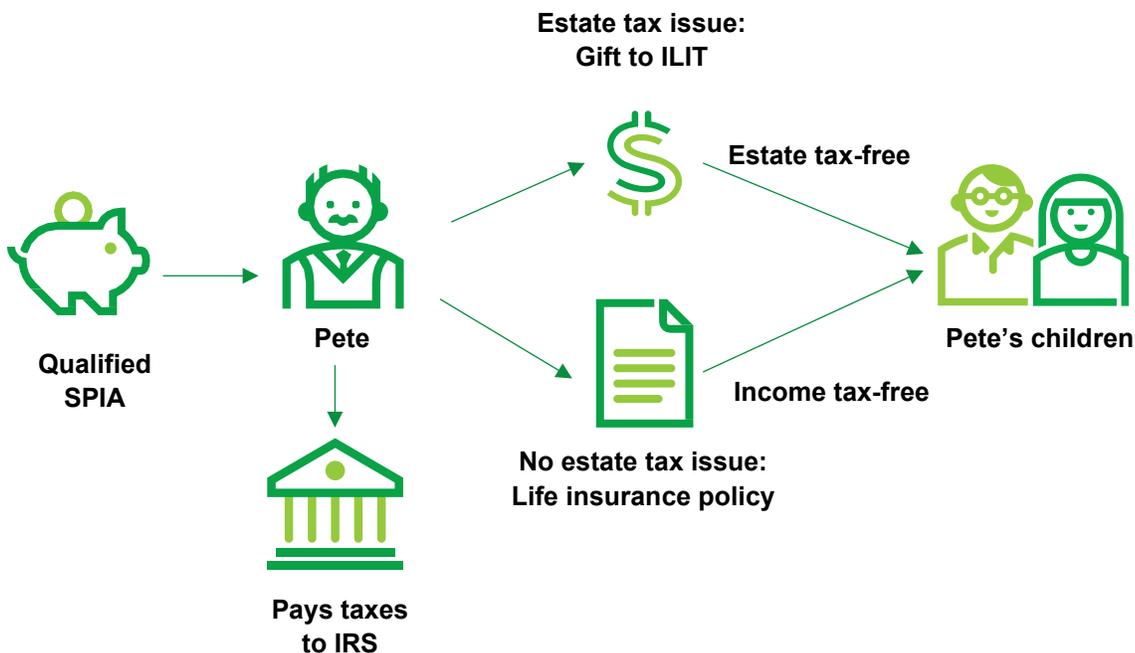
How does it work?

Pete wants to manage income and estate taxes when he passes the value of his IRA to his children.

Pete is 65 and has saved his retirement assets during his working years and holds a \$500,000 IRA balance. He does not need these funds for retirement because he gets sufficient income from a pension and other sources to cover his anticipated retirement expenses.

- He wants to leave a legacy to his two children but is concerned about market downturns and taxes they will pay.
- Pete works with a financial professional to determine that a 10-year period-certain SPIA pays out an annual amount of \$58,000.
- Assuming a 20% tax withholding, Pete has \$46,400 towards premiums for a life insurance policy.
 - If Pete has no estate tax concerns, he can directly pay the premiums on the policy.
 - If Pete also has estate tax concerns, he can gift the premiums to an irrevocable life insurance trust (ILIT) to pass the death benefit to his children outside of his estate, avoiding estate taxes.

This is a hypothetical example for illustrative purposes only.



IRA Maximization strategy comparison: Pete dies at age 80

	Current Situation	IRA Max
IRA today	\$500,000	\$500,000
	Continued tax-deferral subject to RMDs	\$58,000 annually over 10 years at 20% tax rate
Cost of premium	\$0	\$46,400 x 10 years = \$464,000
Value at age 80	\$1,048,997 After RMDs are distributed	\$961,582
Tax rate: 37%	\$388,129	\$0
Net to Pete's kids	\$660,868	\$961,582
Potential gain from IRA Max strategy		\$300,714

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