



WEALTH TRANSFER PLANNING THROUGH DEFERRED ANNUITIES (ANNUITY MAXIMIZATION): A "LIVE BETTER, LEAVE MORE" PLANNING APPROACH

CLIENT PROFILE	
Age:	60 and older
Status:	Nearing retirement or already retired
Concern:	Would like to increase amount left to heirs

SITUATION

- Client has a deferred annuity that is no longer needed for retirement income.
- Although client wants to leave annuity to the heirs, its value may be reduced by estate and income taxes.

SOLUTION

- Use distributions from the deferred annuity to fund an Irrevocable Life Insurance Trust (ILIT)¹ to increase the amount of money left to the heirs.

HOW IT WORKS

- Client creates an income stream from the deferred annuity, either by taking withdrawals or by converting it to a Single Premium Immediate Annuity (SPIA).
- Client creates an ILIT and uses the after-tax income from the annuity to fund it.
- The ILIT purchases a life insurance policy on the life of the client (and spouse, if desired).²
- At death, the policy death benefit will pass through the ILIT to the heirs, free of estate and income taxes.

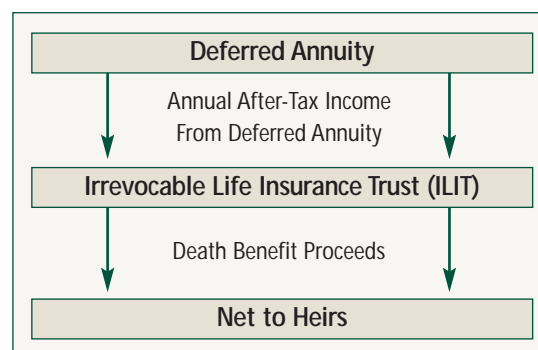
BENEFITS

- May increase amount to heirs.
- May avoid estate taxes.
- May avoid income taxes.

CONSIDERATIONS

- The SPIA approach generally creates a larger, guaranteed income stream, which means a larger potential premium and death benefit for the heirs. However, converting to a SPIA is irrevocable and liquidates the annuity's principal.
- The withdrawals approach allows the client to retain access to the principal of the deferred annuity, but reduces the amount of money left in the annuity. Also, the income stream is not guaranteed and is generally less than the SPIA approach, resulting in a lower premium and death benefit.
- The withdrawals approach should not be used with clients under age 59½ because they may be subject to a 10% federal penalty tax.

WHAT IT LOOKS LIKE



CASE STUDY: SAM AND MAGGIE MALONE

CLIENTS: Sam and Maggie Malone, ages 67 and 62, 35% Tax Bracket
TOTAL ESTATE: \$5,000,000 growing at 5% annually (includes annuity)
DEFERRED ANNUITY: \$750,000 growing at 5.5% annually (cost basis of \$400,000)
WITHDRAWALS APPROACH: \$40,448 a year pre-tax, \$26,317 after taxes
PRODUCT: \$2,452,716 John Hancock Protection SUL-G
\$26,317 Annual Premium

EFFECTS OF REPOSITIONING USING ANNUITY MAXIMIZATION

	DO NOTHING	ANNUITY MAXIMIZATION
Annuity Value in Year 25	\$2,860,044	\$675,090
Life Insurance Proceeds	\$0	\$2,452,716
Estate and Income taxes due on Annuity	\$2,254,228	\$405,054
Net to Heirs	\$605,816	\$2,722,752

The data shown is taken from an illustration. It assumes a hypothetical rate of return and is not a representation of expected future results. Unless indicated otherwise, these values are not guaranteed.

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1. Trusts should be drafted 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. In order to qualify for income tax-free treatment, it is generally necessary to purchase the life insurance and the annuity from different carriers. Consult with your financial advisor.

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