WEALTH DISTRIBUTION and ESTATE PLANNING:
Using Capital Transfer Planning and Strategies

You have worked hard and saved for your retirement for years. You have leveraged the tax advantages of individual retirement accounts and tax-deferred annuities, and accumulated funds in Certificates of Deposit. These assets, if not used during your lifetime, may not be the best assets to own at death.

You can efficiently transfer the value of these assets to your heirs using life insurance to protect your annuities, pension accounts, IRAs, CDs, and other taxable assets. When structured properly, the death benefit of a life insurance policy is received income tax-free by your beneficiaries.

Capital Planning involves repositioning an asset not needed for current income into an efficient funding source for your beneficiaries. You pay any income tax due upon repositioning the asset.

Following are 7 scenarios for repositioning assets.

1.
Annuity to Life / Multiple Premium Plan ("ANN/MP")

Candidate

- Ages 65-82
- Good to excellent health
- $50,000+ in Deferred Annuity
- Funds not necessary to maintain candidate's current lifestyle, but may be needed in the event of an emergency
- Intention is to hand down asset to spouse, children, grandchildren, or a charity

The dilemma facing the owner of the annuity

- An annuity is an excellent choice for wealth accumulation, but does not perform very well as a capital transfer vehicle
- Owner's tax-deferred growth during lifetime becomes beneficiary's tax liability
- Annuities gifted during owner's lifetime subject to income-tax with respect to recipient

What is the goal?

- Find best method to maximize amount of wealth transferred to heirs while maintaining ability to withdraw funds in event of emergency

Recommendation

- Owner takes annual partial free withdrawals from annuity
- Owner reserves what is required to pay income taxes on withdrawals
- Owner transfers after-tax funds into life insurance policy on owner's life or on his or her spouse's life (respective ages and health conditions being deciding factors) as annual premiums for benefit of his or her heirs

What will be accomplished?

- Annuity stays in effect if additional withdrawals needed
- Substantially increases inheritance to heirs as a result of increased death benefit inherent in life insurance policy
- Eliminates great majority of income tax which would have to be paid by heirs upon inheritance of annuity

2.
Annuity to Life / Single Premium Plan ("ANN/SP")

Candidate
- Ages 65-82
- Good to excellent health
- $50,000+ in Deferred Annuity
- Funds not necessary to maintain candidate's current lifestyle
- Intention is to hand down asset to spouse, children, grandchildren, or a charity

The dilemma facing the owner of the annuity
- An annuity is an excellent choice for wealth accumulation, but does not perform very well as a capital transfer vehicle
- Owner's tax-deferred growth during lifetime becomes beneficiary's tax liability
- Annuities gifted during owner's lifetime subject to income-tax with respect to recipient

What is the goal?
- Find best method of transferring value of annuity to owner's heirs upon death

Recommendation
- Owner surrenders annuity for cash value
- Owner reserves what is required to pay income taxes on gain in contract
- Owner transfers after-tax funds into life insurance policy on owner's life or on his or her spouse's life (respective ages and health conditions being deciding factors) as single-sum deposit for benefit of heirs

What will be accomplished?
- Removes future appreciation from taxation
- Substantially increases inheritance to heirs as result of increased death benefit inherent in life insurance policy
- Eliminates income tax which would have to be paid by heirs upon inheritance of annuity

3.
CD to Life / Multiple Premium Plan ("CD/MP")

Candidate
- Ages 65-82
- Good to excellent health
- $50,000+ in CD
- Funds not necessary to maintain candidate's current lifestyle, but may be needed in event of emergency
- Intention is to hand down asset to spouse, children, grandchildren, or a charity

The dilemma facing the owner of the CD
- CD is good, safe harbor choice for wealth accumulation, but poor choice for capital transfer, because:
- Heirs could inherit considerably more if asset positioned properly

What is the goal? • Find best method of transferring value of CD to owner's heirs upon death

Recommendation
- Owner surrenders CD
- Owner transfers funds into SPDA or joint SPDA, if married
- Owner makes annual partial withdrawals from annuity (usually projected annual interest only) leaving availability to make additional withdrawals in event funds are needed
- Owner transfers after-tax withdrawals from SPDA as annual premiums into life insurance policy on owner's life (if for benefit of spouse) or on his or her spouse's life

(respective ages and health conditions being deciding factors) if for benefit of his or her heirs

What will be accomplished?

• Value of SPDA remains constant, since only annual gain used to pay life insurance premiums
• Substantially increases inheritance to spouse or heirs as result of increased death benefit inherent in life insurance policy

4.
CD to Life / Single Premium Plan ("CD/SP")

Candidate

• Ages 65-82
• Good to excellent health
• $50,000+ in CD
• Funds not necessary to maintain candidate's current lifestyle
• Intention is to hand down asset to spouse, children, grandchildren, or a charity

The dilemma facing the owner of the CD

• CD is good, safe harbor choice for wealth accumulation, but poor choice for capital transfer
• Heirs could inherit considerably more if asset positioned properly

What is the goal?

• Find best method of transferring CD value to owner's heirs upon death

Recommendation

• Owner surrenders CD
• Owner transfers funds into life insurance policy on owner's life or on his or her spouse's life (respective ages and health conditions being deciding factors) as a single-sum deposit for benefit of his or her heirs

What will be accomplished?

• Removes future appreciation from taxation
• Substantially increases inheritance to heirs as result of increased death benefit inherent in life insurance policy

5.
IRA to Life / Multiple Premium Plan ("IRA/MP")

Candidate

• Ages 65-82
• Good to excellent health
• $50,000+ in IRA
• Funds not necessary to maintain candidate's current lifestyle, but may be needed in event of emergency
• Intention is to hand down asset to spouse, children, grandchildren, or a charity

The dilemma facing the owner of the IRA

• An IRA is one of the best financial vehicles for wealth accumulation, but one of the worst financial vehicles for wealth distribution and/or capital transfer
• Plan owner's heirs must pay income taxes on every dollar they inherit from distributions of IRA

What is the goal?

• Since Required Minimum Distributions ("RMDs") are not needed to maintain owner's lifestyle, find most efficient method of utilizing RMDs for benefit of owner's heirs

Recommendation

• Owner receives RMD or takes pre-70½ withdrawals annually
• Owner reserves what is required to pay income taxes on distributions
• Owner transfers after-tax funds into life insurance policy on owner's life or on his or her spouse's life (respective ages and health conditions being deciding factors) as annual premiums for benefit of his or her heirs
• Owner retains all funds in excess of annual life insurance premium

What will be accomplished?

• Value of IRA remains constant, since only annual gain used to pay life insurance premiums
• Substantially increases inheritance to heirs as result of increased death benefit inherent in life insurance policy
• Provides liquidity to heirs in order to pay income tax due on inheritance of IRA and/or for conversion to Roth IRA

6.
IRA to Life / Single Premium Plan ("IRA/SP")

Candidate

• Ages 65-82
• Good to excellent health
• $50,000+ in IRA
• Funds not necessary to maintain candidate's current lifestyle
• Intention is to hand down asset to spouse, children, grandchildren, or charity

The dilemma facing the owner of the IRA

• An IRA is one of the best financial vehicles for wealth accumulation, but one of the worst financial vehicles for wealth distribution and/or capital transfer
• The plan owner's heirs must pay income taxes on every dollar they inherit from distributions of IRA

What is the goal?

• Find best method to maximize amount of wealth transferred to heirs

Recommendation

• Owner surrenders IRA
• Owner reserves what is required to pay income taxes on distribution
• Owner transfers after-tax funds into a life insurance policy on the owner's life or on his or her spouse's life (respective ages and health conditions being deciding factors) as a single-sum deposit for benefit of his or her heirs

What will be accomplished?

• Eliminates necessity of taking unneeded Required Minimum Distributions
• Substantially increases inheritance to heirs as a result of increased death benefit inherent in life insurance policy
• Eliminates income tax which would have to be paid by heirs upon the inheritance of IRA

7.
SPIA to Life / Multiple Lifetime Premium Plan (“SPIA/MP”)

Candidate
- Ages 65-82
- Good to excellent health
- $50,000+ in Deferred Annuity, CD, and/or IRA
- Funds not necessary to maintain candidate’s current lifestyle
- Intention is to hand down asset to spouse, children, grandchildren, or charity

The dilemma facing the owner of the IRA
- A deferred annuity is an excellent choice for wealth accumulation
- CD is good, safe harbor choice for wealth accumulation
- An IRA is one of the best financial vehicles for wealth accumulation
- However, none of these are designed to efficiently provide for wealth distribution and/or wealth transfer
- Heirs could inherit considerably more if asset positioned properly

What is the goal?
- Find best method to maximize amount of wealth transferred to heirs upon death

Recommendation
- Owner transfers funds to a SPIA with (1) lifetime income or (2) lifetime income with cash refund
- Owner reserves what is required to pay income taxes on income payments
- Using the net income payment stream, owner transfers funds into a life insurance policy on the owner’s life or on his or her spouse’s life (respective ages and health conditions being deciding factors) as premiums for benefit of his or her heirs

What will be accomplished?
- Value of immediate annuity payments remains constant, with a know portion as taxable income each year
- Substantially increases inheritance to heirs as a result of increased death benefit inherent in life insurance policy
- Eliminates majority of possible income tax which would have to be paid by heirs upon inheritance