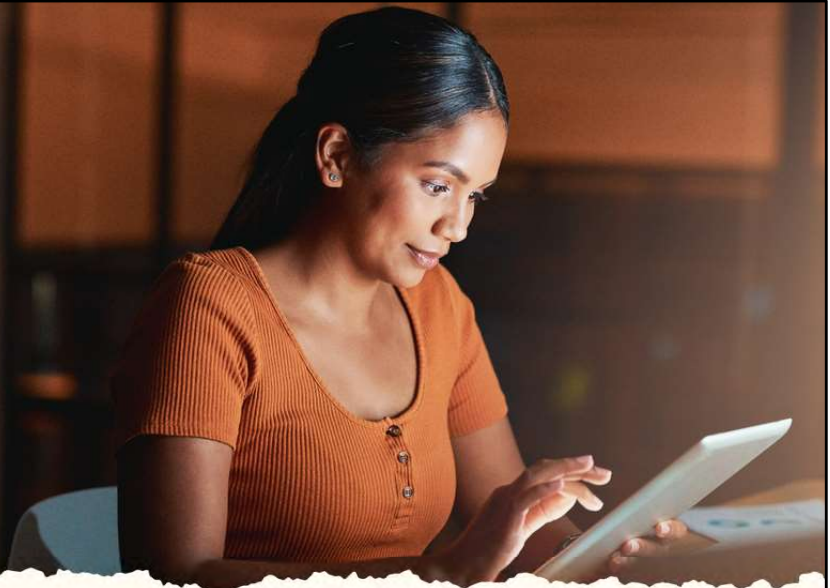


ADVANCED  
MARKETS

# The SECURE Transfer



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600365\_1222



You've worked hard building your retirement. You made hard choices and were smart with your finances. You are confident that you will have enough income to cover your needs and expenses...so you know what's next...

You've worked hard building your retirement. Made hard choices and were smart with your finances.  
You are confident that you will have enough income to cover your needs and expenses...so what's next...



How about making sure your family and loved ones are protected and get the most from your estate?

how about making sure your family and loved ones are protected and get the most from your estate.

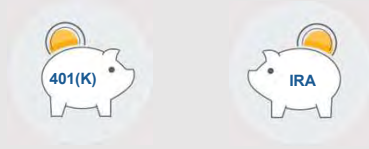
# IRAs, 401(k)s and Taxes

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A lot of my clients tell me that their estate is in good order because they have 401(k)s and IRAs. And when they're in the wealth-building stage, they're right. They're great tools for accumulating funds for retirement due to tax-deferred savings and pre-tax contribution opportunities. But they're not great at transferring that money at death due to taxes owed.



## “I Have a 401(k) and IRAs”

Great for accumulation, not transfer

### Why?

- No step-up in basis like other capital assets
- Potential estate tax liability
- Inherit the income tax liability
- Limitations from SECURE Act (2019)

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Here are four factors that impact your 401(k) and IRA's ability to transfer assets to your heirs effectively

- 1.No step-up in basis like other capital assets
- 2.Potential estate tax liability
- 3.Income tax liability
- 4.Limitations from SECURE Act (2019)

The one piece I want to focus on is the SECURE Act.



## SECURE Act & Your Retirement

Wide-ranging legislative reform that helps make saving for retirement easier and more accessible to all Americans.

- Enacted in 2019, in effect in 2020
- Touches many aspects of retirement, including:
  - Repeals maximum age for traditional IRA contributions
  - Increases required minimum distribution (RMD) age for retirement accounts

But unfortunately, it may limit the “stretch” opportunity from inherited IRAs for non-spouses.



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The Setting Every Community Up for Retirement Enhancement Act

This new law includes reforms that could make saving for retirement easier and more accessible for many Americans, due to repealing the maximum age for making traditional IRA contributions and increasing the age requirement for when people must start taking Required Minimum Distributions from their qualified plan assets. But the Act unfortunately places restrictions on how inherited IRA distributions are handled.



## SECURE Act & IRA Distributions

Spouses (and eligible designated beneficiaries) get most leeway

Non-spouse (includes adult children, siblings, grandchildren, etc.)

- 10-year distribution
- Large accounts → tax bill

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The SECURE Act still allows spouses and other eligible designated beneficiaries the flexibility to take distributions over their life expectancy and not have an immediate or significant tax impact on income. They also continue the tax-deferred savings treatment each year the account is open.

But the one major change that negatively impacts most non-spouse beneficiaries, is the new 10-year rule.

Rather than allowing a lifetime distribution of the account after death, the SECURE Act requires non-spouse beneficiaries to draw down the account value within 10 years. This could potentially cause a significant tax increase to the beneficiary, depending on the size of the IRA account balance.

Let's take a look at one example ...

## Qualified IRA & Taxes



Qualified IRA	\$300,000
Basis	\$0
Gain	\$300,000
<b>TAX</b>	
Estate Tax - 40%	\$120,000
Income Tax - 37%	\$111,000
Total Taxes Owed	<b>\$231,000</b>
Inheritance	<b>\$69,000</b>

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In this example, Judy Jones has a sizeable estate, worth \$15 million. As I mentioned earlier, she has done a great job saving for retirement, and feels comfortable with the income stream she will receive. She has significant assets, and this puts her above the current estate tax exemption amount of \$12.92 million for 2023.

She is single, age 60, so when she passes, she plans to leave her son the \$300,000 IRA as well as other assets like her home and her farmland. Due to having such a large estate, the \$300k IRA is subject to the 40% estate tax. This means the estate owes \$120,000 in estate tax.

We also need to consider what tax bracket her son is in, because he will owe the income tax on the IRA when he withdraws the income. Her son is 38, is currently in the 37% tax bracket, so there goes another \$111,000 to income tax. Add these two up and the potential taxes owed on a \$300,000 IRA equal \$231,000 ... or, 77%. In a worst case scenario, this leaves her son \$69,000 from the \$300k asset.

This leaves her son \$69,000 from this \$300k dollar asset.

On a related note ... Keep in mind that the estate tax exemption is scheduled to return to \$5 million adjusted for inflation in 2026.



## IRAs & Income Taxes... Other Scenarios

Scenario 1 (37% Bracket)		Scenario 2 (Lower Bracket)	
Qualified IRA.	\$300,000	Qualified IRA	\$300,000
Basis	\$0	Basis	\$0
Gain	\$300,000	Gain	\$300,000
<b>TAX</b>		<b>TAX</b>	
Estate Tax - 40%	\$120,000	Estate Tax - 40%	\$120,000
Income Tax - 32%	\$96,000	Income Tax - 24%	\$72,000
Total Taxes Owed	<b>\$216,000</b>	Total Taxes Owed	<b>\$192,000</b>
Inheritance	<b>\$84,000</b>	Inheritance	<b>\$108,000</b>

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Let's say your beneficiaries aren't in the 37% tax bracket. Here are a couple other scenarios that show what someone in lower tax brackets would inherit from the \$300,000 qualified IRA.

As you can see, even if your beneficiaries aren't in the 37% bracket, more than 60% of the value of the IRA is taken for taxes before they even see it.

## Even if There is No Estate Tax Concern



Qualified IRA	\$300,000
Basis	\$0
Gain	\$300,000
<b>TAX</b>	
Estate Tax - 40%	\$0
Income Tax - 37%	\$111,000
Total Taxes Owed	<b>\$111,000</b>
Inheritance	<b>\$189,000</b>

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Let's assume that there is no estate tax concern. So, if Judy names her son as the beneficiary of the IRA, he will have to pay income taxes on the money he takes out – as high as 37% currently — which for purposes of this example is \$111,000. Also, he will likely have to withdraw all the money by the 10th year after Judy's death, whether he wants to or not.

Once again that IRA was great for Judy's accumulation goals but is not an efficient way for her son to receive it after her death.

## What's Income in Respect of a Decedent (IRD)?

- Income you earn but didn't receive prior to death.
- Examples include:
  - Uncollected salaries
  - Taxable distributions from IRAs
  - Interest & dividends accrued
- Why does it matter?
- Taxes!
  - If not paid up front → your beneficiaries will owe
  - Offsetting deductions
- **Reminder!** Make sure beneficiaries' accountants/tax attorneys are aware.

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What's Income in Respect of a Decedent or IRD?

This is income you earn but didn't receive prior to death.

Examples include:

- Uncollected salaries
- Taxable distributions from IRAs
- Interest & dividends accrued

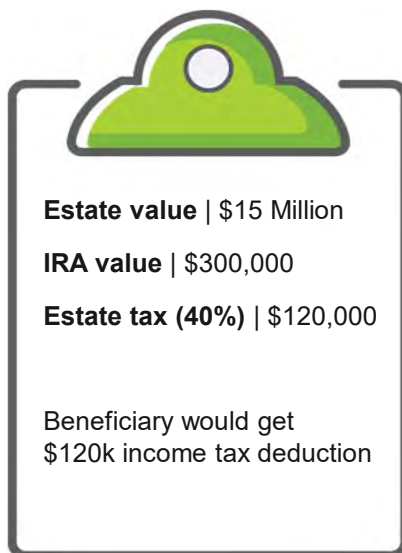
Plus, many others.

So why does it matter?

When you die, if taxes weren't paid up front on these assets, then your beneficiaries will owe.

Fortunately, the IRS allows offsetting tax deductions on any of the IRD items where an estate tax has been paid .... But the person handling the estate usually isn't the person handling the beneficiaries' taxes, so it's important for heirs to inform their accountant of any taxes they pay on their inheritance.

## IRD & Taxes



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If we consider the previous example with the \$300,000 IRA.

Here, because the estate paid \$120,000 in estate taxes, the son can offset or claim a deduction when filing his own income tax return. He would get a \$120,000 income tax deduction.

# Passing on Your Estate to Your Loved Ones

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While offsetting deductions are nice, they're not the same as handing down what you've earned to your loved ones.

So let's see how we can protect your money and pass it on to your loved ones in a cost-efficient way...



## The Solution: Life Insurance

### Why?

- Tax-free benefits for beneficiaries
- No capital gains taxes
- Living benefits are there for you as well, and are also tax-free
- Can be done without lifetime of premiums

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While everyone knows what life insurance is, they may not know why it's considered a smart addition to most retirement portfolios.

The simple reasons are with a life insurance policy you can provide a tax-free benefit to your beneficiaries starting on day one. **That means \$300k life insurance** policy equals \$300k of tax-free income **to your beneficiaries, unlike the \$300k IRA that ended up equaling \$69k.**

You don't have to worry about recognizing capital gains at death.

Plus, here's something many people probably don't know ... if you take distributions from the policy for yourself or use the accelerated benefits under the policy during your life, those benefits are tax free as well.

And don't worry, you can pay for a life insurance policy without having to pay premiums over your entire life

Let me show you how.



What If...

You could immediately turn  
that \$300,000 IRA into a  
\$915,000 tax-free asset for  
your loved ones?

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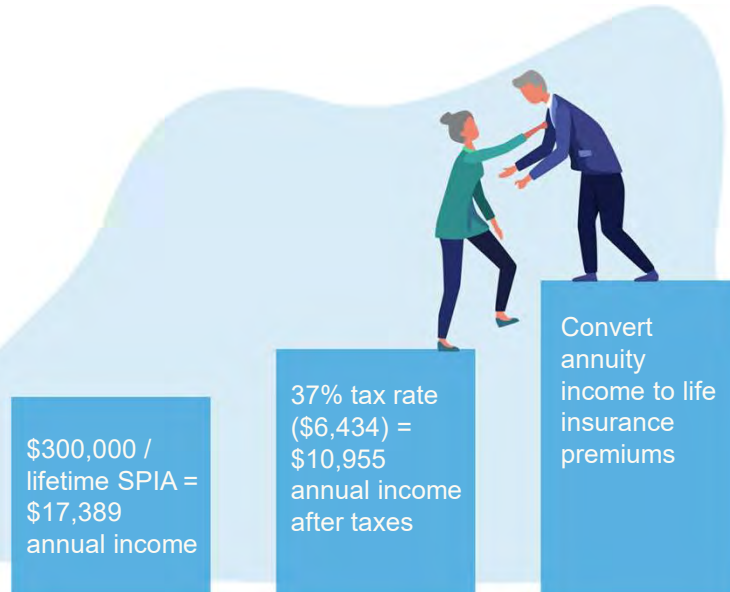


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There are a couple ways to do that, but I would like to discuss a way that keeps your tax impact low while funding the life insurance policy...

## \$300,000 IRA → \$915,000 Guaranteed Death Benefit

Three Steps



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Here's a prime example of protecting your assets so your loved ones get the most from your estate.

Take the same exact situation we had with the \$300,000 IRA. If you use that IRA asset as premium for life insurance you can turn that \$300k into double that amount or more for your loved ones, and it will be tax free income without any restrictions on when they can use it.





## Low Tax Impact & Guarantees

- \$915,000 Tax Free Death Benefits
- Guaranteed to Age 90

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You can turn that taxable IRA into a tax-free death benefit for your loved ones. You draw income from your IRA and pay the taxes up-front, you can use that after tax income to pay the premium on your life insurance policy and your beneficiaries will not pay taxes on the death benefit. Also, the life insurance death benefit is guaranteed to age 90.

You are now providing a risk-free, tax-free asset (guaranteed to age 90) and increasing the value of your IRA overnight (the day you put the life insurance policy in force).

Of course, the amount of the death benefit will vary depending on your age, sex, risk class and rates in effect at the time of purchase. I would be glad to talk with you about the specifics of your situation and how this could look for you right now.

# Other Considerations...



## Irrevocable Life Insurance Trust (ILIT)

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### Special Structure Required?

- Trust purchases a life policy and is the beneficiary
- Death benefit will not be included in value of estate
- Death benefit is still tax free



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Should you consider a structure with a trust owning the policy? SECURE Transfer Planning with an Irrevocable Life Insurance Trust is an option if there is an estate tax concern.

- Takes all the same steps described above
- Contribute the money to an ILIT, subject to gift tax limitations
- Has a trust purchase a life insurance policy and be the beneficiary

Benefits include:

- The death benefit is still income tax free
- The death benefit is estate tax free
- The funds can be used to pay estate taxes, pay other settlement costs and provide for beneficiaries of the ILIT
- The grantor of the trust effectively controls the distribution of the funds after his/her death because they originally drafted the instructions for the trustee in the trust.



## What About Adding LTC Protection?

**\$915,000 → \$755,000 face amount**

- Adds \$31,000 monthly LTC benefit
- Guaranteed death benefit to age 90

With the GRO rider, she can change her mind 20 years from now and get a full refund of premium ... how is that for flexibility ...

The life insurance offers a full return of premium in years 20-25 if Judy no longer wants to continue the coverage.

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If you don't need to have the policy owned by an irrevocable life insurance trust, then long-term care protection can be an option too.

Life insurance is an asset that can provide you living benefits as well as a significant death benefit for your family.

If Judy was interested in adding LTC protection to that same policy we just reviewed, we could simply reduce the face amount a little and add a \$31k monthly LTC benefit to protect her long-term care needs. If she never uses the LTC benefit, her son would receive the \$755k.

## If Needs Change... Allows for Return of Premium

- Flexibility to get premiums back during a 60-day window
- 50% in year 15
- 100% in years 20-25 (limited to 80% of the face value)

Guaranteed Refund Option Benefits* (Available Upon Surrender)	
15 <sup>th</sup> Year	\$82,162
20 <sup>th</sup> Year	\$219,100
21 <sup>st</sup> Year	\$230,055
22 <sup>nd</sup> Year	\$241,010
23 <sup>rd</sup> Year	\$251,965
24 <sup>th</sup> Year	\$262,920
25 <sup>th</sup> Year	\$273,875

\*The Guaranteed Refund Option is only available during the policy years mentioned above and only for 60 days following those years.

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If needs change, the Guaranteed Refund Option allows for Return of Premium if the terms of the rider are satisfied. With the Guaranteed Refund Option, all premiums including additional rider premium are eligible for refunds.

The Guaranteed Return Option has a 60-day window and is available following the 15<sup>th</sup> year limited to 50%. In years 20-25 its 100%.

The Guaranteed Refund Option rider is available on both Income Advantage IUL & Life Protection Advantage IUL where there are some limitations based on tobacco usage for both products. For Life Protection Advantage we will issue for age 60 and under only.



# Goals Portfolio Review Plan

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I know we're gone over a lot of information today. But don't worry. We're in this together, so I'm here to answer all your questions and help you through the next steps in your financial and legacy planning.

So before we go any further ... do you have any questions or is there something I can go over again?

Ok. Here's how I typically work with my clients after we've gone over this presentation.

- Our next steps would be to talk about your financial goals. Not just for retirement but for passing on your wealth.
- Then we'd do a portfolio review, just to level set and see where we are ...
- After we've done those, only then would we come up with a plan.

But for now ...

Go home. Talk it over. And then when you're ready, give me a call and we'll talk about how to get you from where you are, to where you want to be.

# Questions?

[Agent Name]

[Agent Email Address]

[Agent Phone Number]

[AR/CA Insurance Lic#]



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That's the end of my formal presentation. Do you have any questions?

Thanks so much for your time. If I don't hear back from you in a week, I'll reach out so we can start planning for next steps.