National Life Group®

Legacy IRA Strategy

Help your clients leverage IRA savings to maximize their legacy

Individual Retirement Accounts (IRAs) and qualified plans are powerful tools for individuals to accumulate assets for retirement needs and help build a legacy. In December of 2019, the SECURE Act upended the rules for inherited IRAs, putting an end to the "Stretch IRA" era for most beneficiaries.

Under previous tax law, non-spouse beneficiaries could take required minimum distributions based on their life expectancy; the new law requires most non-spouse beneficiaries (not including minor children of the owner, chronically ill or disabled, those less than 10 years younger, and properly drafted "see-through" trusts) to deplete the entire IRA within 10 years. This change may result in additional, higher and expedited tax burdens for beneficiaries, and ultimately lessen the legacy left.

With this legislative change in effect, there is now an opportunity to use new strategies to help clients who find themselves on either side of this equation.

For IRA and qualified account owners who are not relying on those assets for retirement income, using distributions from the account to fund a permanent life insurance policy can help them convert their account into a potentially larger, tax-free[1] inheritance for their heirs.

With this strategy, the client's IRA account is spent down over a period of several years and the after-tax distributions are used to fund a permanent life insurance policy. This technique requires some current tax-bracket planning to ensure the client's distributions from the IRA aren't causing bracket creep or other tax issues. You'll also want to be aware of estate tax considerations for larger policies that might push the client's estate beyond the exemption limit.

This strategy works well for anyone up to age 70, who is in good health and has qualified money they don't need in retirement.

If you have a client who wants to optimize IRA assets beyond their own retirement and leave a lasting legacy, there has never been a better time to leverage the power of life insurance.

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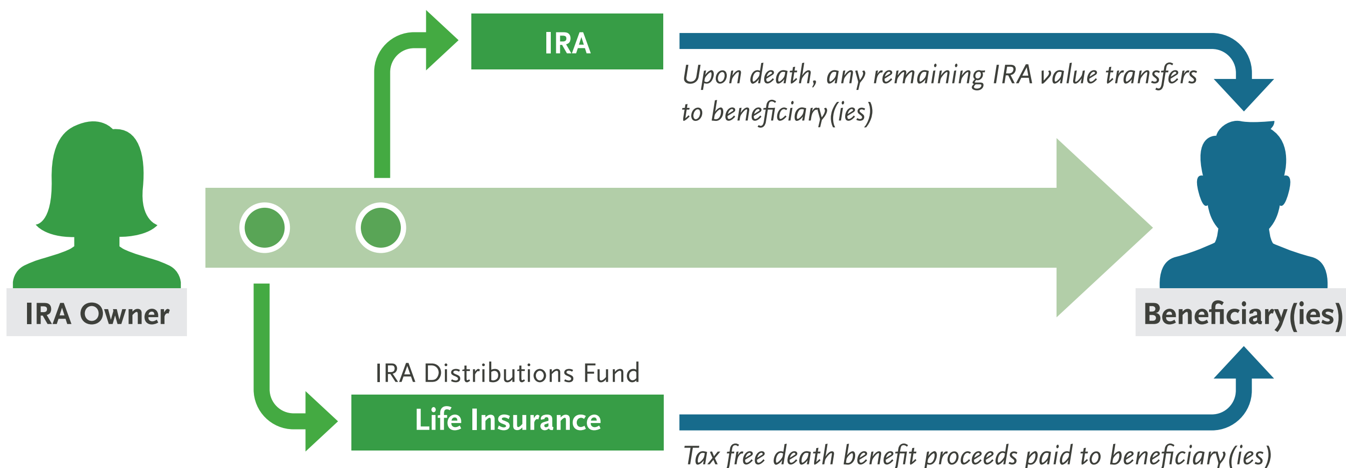
Legacy IRA Strategy Using Life Insurance



In this scenario the client uses distributions from their IRA or retirement account to fund a permanent life policy to provide a tax-free legacy to their beneficiaries.

Using IRA distributions to purchase a permanent life policy can help your client's assets work even harder for them and their beneficiaries.

What could this mean for your client and their beneficiaries?

Let's look at a case study[2] comparing the results of doing nothing vs. taking distributions from an IRA to purchase life insurance.

Jane, age 60, currently has an IRA valued at $1 million that she wishes to leave as a legacy for her son, Joe, currently age 30.

No Change - Do Nothing*:

Jane passes away at age 80. Assuming her IRA earns 4% annually and she saves her RMD distributions into a side account earning 3% annually, the total value of her accounts would be about $2.1 million at the time of her death.

Joe inherits both accounts and liquidates the IRA as required by the IRS, taking 10 annual distributions and saves the after-tax amount into a side account earning 3% after-tax. At the end of those 10 years, at his age 60, the total value of his inheritance would be about $2.4 million.

Inherit IRA & Investment Account, take distributions and invest them: **$2,369,127**

Purchase Life Insurance**:

Jane takes 10 years of annual distributions from her IRA and purchases a $1.5 million life insurance policy with the after-tax payments. When Jane passes away at age 80 the policy death benefit is about $2.6 million.

Joe saves the $2.6 million of tax-free life insurance proceeds into a taxable side account earning 3% annually, after-tax. After 10 years, at his age 60, the value of that account would be about $3.5 million.

Jane takes distributions and purchases life insurance: **$3,487,174**

$1,118,047 Difference!

1 Internal Revenue Code § 101(a)(1). There are some exceptions to this rule.

2 Side account is a hypothetical example for illustrative purposes only. Does not represent the actual results of any particular investment or insurance product.

*"Do Nothing" Scenario assumes IRA distributions are taxed at 25%. Jane saves her after-tax RMDs in to a taxable side account earning 3% annually after-tax. The value of that account at Jane's death is $564,147. Jane's $1 m IRA earns 4% annually growing to $1,519,715 at her Death. Joe takes 10 annual pre-tax distributions of $187,367 from the IRA, saving $140,525 to a side account earning 3% after-tax annually for 10 years. The value of this account at that time is $1,610,962. The value of Joe's inherited taxable account after 10 years assuming a 3% after-tax return is $758,166 for a total value of $2,369,127.

**Life insurance scenario assumes Jane purchases a PeakLife policy-F60, preferred non-tobacco, $375,000FV and $1.125 million APB, Option B until year 11, premium of $92,467/year for 10 years after-tax distribution from IRA ($123,290 pre-tax). IRA value is $0 at the end of the 10 year distribution period. Policy death benefit at age 80 is $2,594,785. Joe saves this into a side account earning 3% after-tax annually. At the end of 10 years the value of that account is projected to be $3,487,174.

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