

Annuity Relocation

Using Life Insurance

The Clients

- Married Couple, Ages 69 and 67. Total Net Worth: \$7 Million
- \$1.2 million of net worth in a non-qualified deferred annuity with a \$400K cost basis and expected net growth rate of 4%
- 35% average income tax rate for the clients and their beneficiaries

Challenge

- Clients had sufficient income from investments and other sources to meet their lifestyle needs.
- Annuity was not needed during their lifetime and being held to leave as a legacy to their children.
- Roughly 25% of the annuity could be lost to income taxes, possibly over 55% if subject to estate tax.

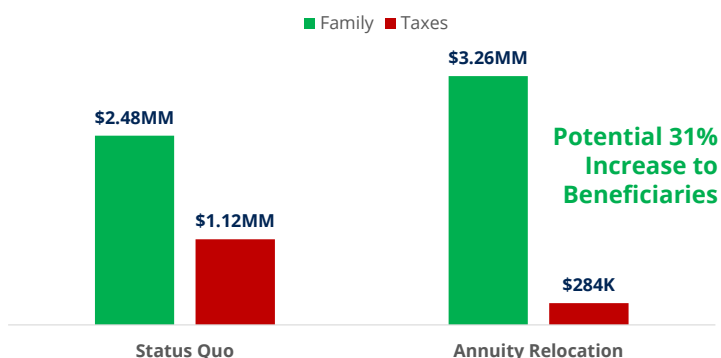
Solution

- Clients relocated the annuity to a term-certain Single Premium Immediate Annuity (SPIA) providing roughly \$121K pre-tax payments for 10 years.
- After-tax payments from the SPIA were used to fund a survivorship life insurance policy on them with a \$3.26 million face amount.

Results

By implementing the annuity relocation strategy using life insurance, the clients' projected after-tax wealth transfer to their children from the annuity money increased by approximately \$780K (or 31%) at their joint life expectancy (LE) of ages 97/95. Moreover, this projected result was accomplished without affecting the ability to maintain their standard of living throughout retirement.

Projected Wealth Transfer at Joint LE from the Annuity



The taxes for the Status Quo are the assumed income taxes on the annuity's gain if liquidated at death by the beneficiaries. The taxes for the annuity relocation are the assumed income taxes paid on the SPIA payments before the net payments are used to fund the premiums.



Life insurance values assume a standard plus risk class for both insureds, John Hancock's Protection SUL 19 solving for the premium to age 120 based on a 4.35% non-guaranteed interest crediting rate, and non-guaranteed policy charges. Non-guaranteed elements are subject to change at the carrier's discretion. To purchase life insurance, financial and medical underwriting requirements apply. All values shown are hypothetical and for illustrative purposes only. Actual results will vary. Lion Street does not provide tax or legal advice. Taxpayers should seek such advice from a tax or legal professional.