Protective

IRA Maximization

The tax offset strategy can help you avoid an inheritance upset

Leaving a legacy behind for your loved ones can help set them up for a prosperous future — but leaving behind a substantial tax burden with it — isn't part of your plans. If you're planning to leave your Individual Retirement Account (IRA) to your beneficiaries, life insurance could be the key to offsetting the amount of taxes deducted from their inheritance.

How does it work?

The tax offset strategy is an effective way for you to pass on the assets you don't need for retirement using a straightforward and tax-advantaged approach. This way, you can help mitigate and minimize income taxes incurred by your loved ones.

By making withdrawals from the IRA, you can pay the annual premiums of a new life insurance policy. The death benefit is determined by what can be purchased with the annual distribution from the IRA.[1] In the future, both the life insurance policy and the remaining IRA value goes to your loved ones, with funds used from the life insurance policy to offset the projected tax bill.

Here's an example:

If John makes his daughter, Jane, the sole beneficiary to his IRA, he may be passing along an inheritance that comes with a substantial tax burden. A more efficient way to transfer his wealth would be to utilize a tax offset strategy, which can minimize the taxes Jane will incur when she inherits her father's legacy.

Assumptions	Tax offest strategy[2]	Results
John Age 65 (survives to age 73)	$1,330,328 IRA peak value	$1,407,106 Jane's inheritance
Jane Age 45 (survives to age 73)	$492,221 Estimated income tax	
$1,000,000 IRA balance	$569,000[3] Life insurance policy	
5% IRA annual return income tax rate 30% for John, **37% for Jane**		

The income tax rate is higher for Jane due to her taking the IRA as a lump sum distribution. The distribution will max her tax rate at 37% (this includes state tax in addition to the federal tax rate).

Important Note: Under the 2020 CARES Act, Required Minimum Distributions (RMDs) are not required in 2020.

[1]Taking additional withdrawals from the IRA to pay life insurance premiums may not be the best alternative. Whenever life insurance premiums exceed RMDs, an individual should consider paying those premiums from sources other than the IRA.

[2]If death occurs at 90.

[3]Based on peak IRA value assuming 5% rate of return and only RMD withdrawals.

Additional information on next page.

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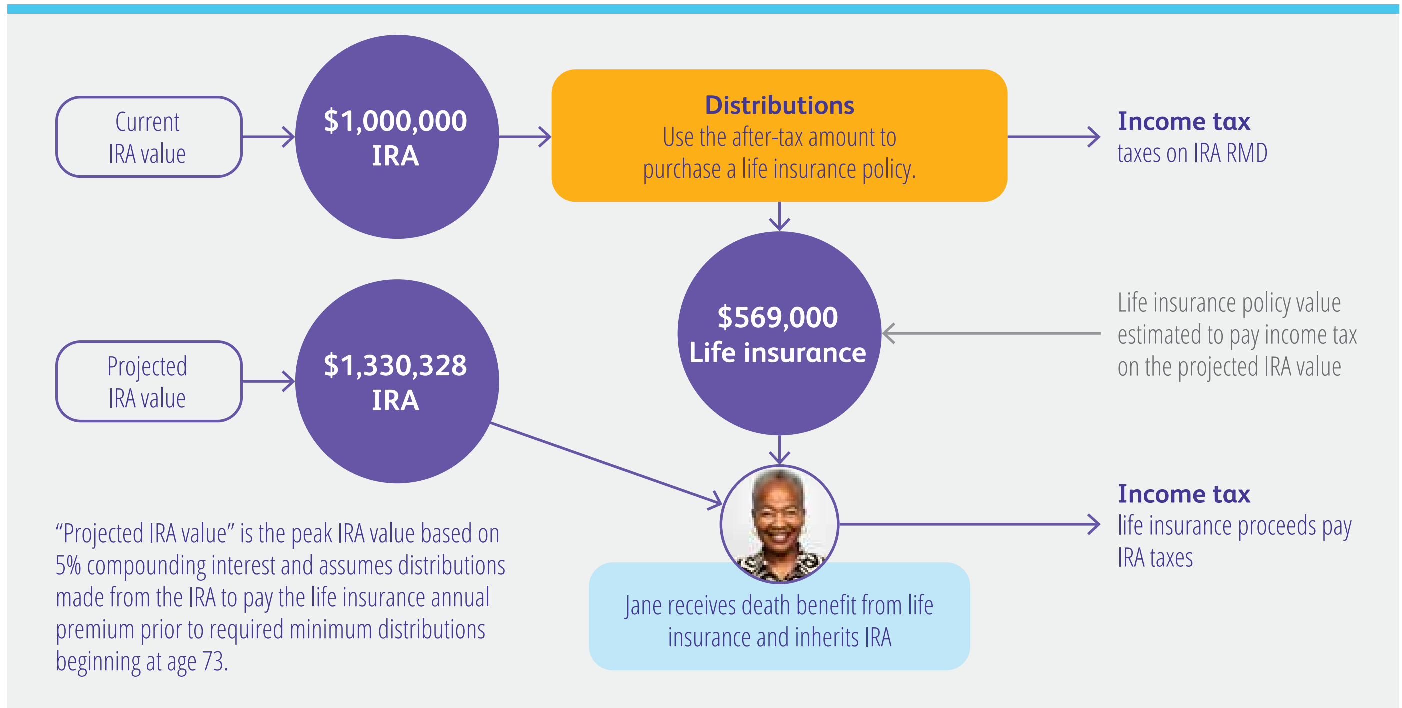
Tax offset strategy process

The tax offset strategy calculates the peak value of the IRA with projections based on a given rate of return, while also factoring in Required Minimum Distributions (RMD). We assume the peak value, determine the tax that will be due, and use that to determine the total amount of the death benefit.



Result: Jane is named as the beneficiary on both the IRA and the insurance policy, while she uses the death benefit from the insurance to cover the IRA taxes — making the death benefit that's passed on income tax free.

Since a life insurance death benefit is not taxable, neither you or your loved ones will pay taxes on any of the funds that are being passed on.

For more information, please contact your financial representative.

Case studies and benefit values represented as part of this presentation are based on hypothetical client age, gender, underwriting classification, premium and interest rate assumptions and are solely intended to introduce IRA Maximization concepts using life insurance contracts. Life insurance death benefits and cash values will always vary based on a variety of factors including age, gender, health, and other underwriting factors. Consumers should consult specific information regarding the products they are considering.

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The income tax on an IRA is not due until each distribution is taken. If an individual made non-deductible contributions to the IRA, a portion of the IRA proceeds may be an income tax-free of basis.

While these strategies may help reduce or eliminate income taxes, they may cause an equal or greater amount of estate taxes, depending on an individual's situation.

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