Asset Maximization & Charitable Giving

SALES KIT

In this kit:

2022 year-end tips | Sales ideas | Conversation guide | Client flyers

Asset Max & Charitable Giving Social Media Posts & Sharable Graphics

Text for Posts

Post this text with any of the images linked on the following 2 pages.

Missed deadlines and lost opportunities are costly! The last months of the year provide a critical planning window – contact me today to make sure you're up-to-date on your financial planning.

Create a lifetime legacy by using annual gifting exclusions for life insurance. Contact me today to find out how!

If your hard work and careful preparation have brought you financial wellness and rewards beyond what you need to live comfortably, you can take unneeded assets and use them to create a legacy or a charitable gift. I can help – contact me today to learn more.

Giving to a charitable cause makes us all feed good! Contact me to find out how charitable giving can be done using life insurance.

Creating a legacy through charitable giving allows you to help shape the future of a cause, benefit, or organization that's important to you. Let me show you how life insurance can help you do just that!

I can help you create a legacy of giving. Ask me about charitable remainder trusts today!

When properly structured and maintained, a charitable remainder trust can offer you significant tax advantages. Contact me today to find out how!

Life insurance can create a charitable gift that's much larger than might otherwise have been possible. Contact me today for a free quote!

Want to maximize your retirement income? Contact me today to reposition underperforming assets with cash value life insurance!

Did you know you can move money from unneeded or underperforming assets like CDs, annuities, qualified plans, pensions, and even Social Security...and use that money to fund life insurance, potentially increasing the legacy for your heirs or your favorite charity? Contact me today to find out how!

Social Media Images

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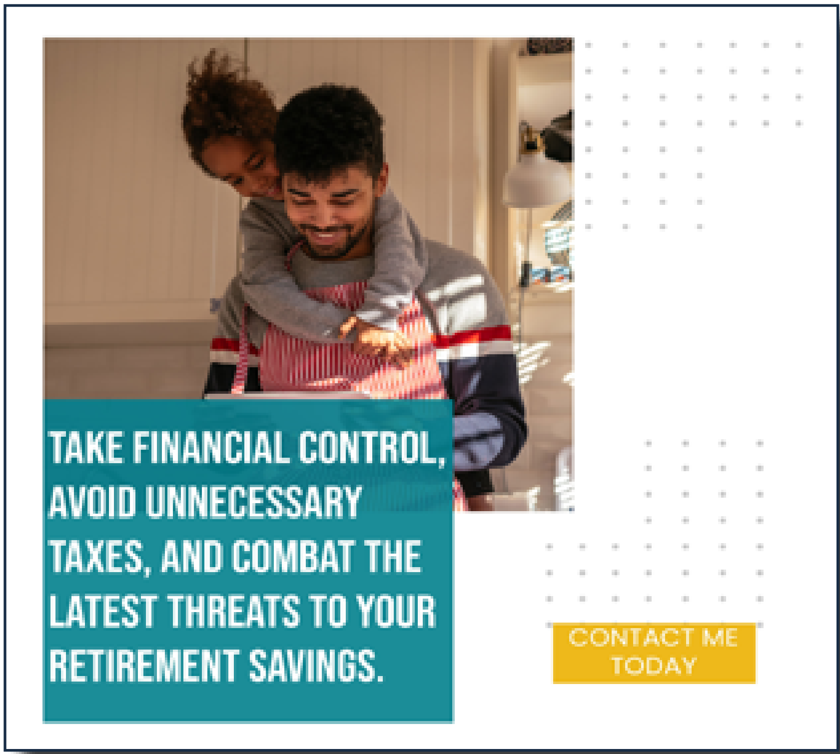

Asset Max & Charitable Giving

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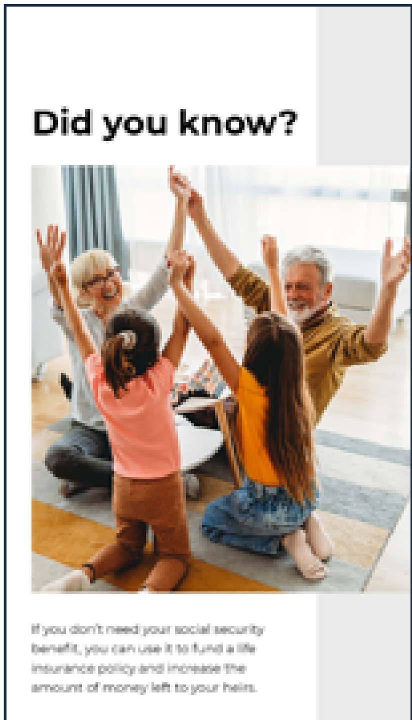

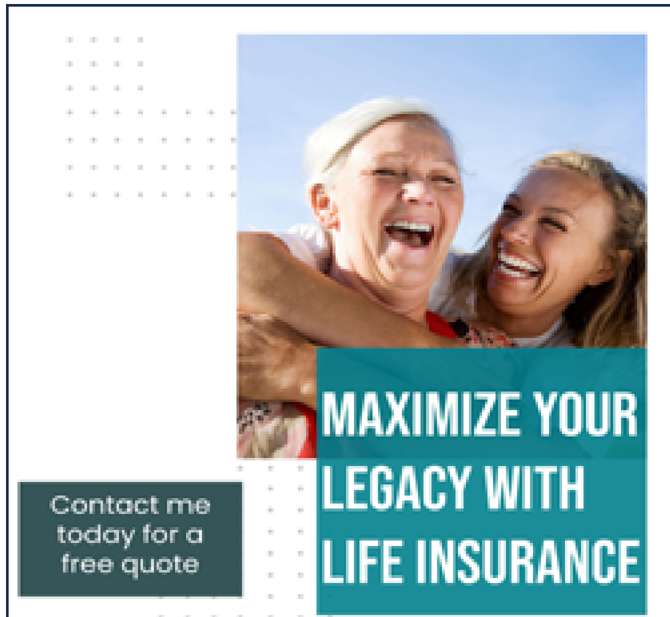

2022 YEAR-END CHECKLIST:

DEADLINES & ADVANCED TAX STRATEGIES TO IMPLEMENT BEFORE YEAR'S END

ED SLOTT AND COMPANY, LLC
America's IRA Experts

Web: irahelp.com Email: info@irahelp.com Phone: 800-663-1340

2022 Year-End Checklist

Deadlines & Advanced Tax Strategies to Implement Before Year's End

Time Flies When You're Having Fun...

And a lot of people are a having a whole bunch of fun! After two years of lockdowns and canceled travel plans, Americans are vacationing in force. Airplanes are full. Concert venues are sold out. The National Parks have been crowded, and the big theme parks are mobbed. When the summer fun ended, back-to-school and fall-time activities filled the calendar. The clock never stops, the seasons always change, and several critical retirement account deadlines lurk on the horizon.

Time flies when you're having fun, but in order to take advantage of certain beneficial retirement account tax breaks, you and your clients must stay focused. Since many of these actions require cooperation from third-party IRA custodians and plan administrators, it's not too soon to start year-end planning.

October 1

Establish a SIMPLE IRA for 2022

If your client owns an existing business and wants to establish a new SIMPLE IRA plan for this calendar year, the deadline is October 1, 2022. If your client starts a new business after October 1, 2022, the SIMPLE IRA can be set up as soon as administratively feasible, but no later than December 31, 2022.

October 17

Make 2021 Employer Contributions to a SIMPLE IRA

Employer contributions to a SIMPLE IRA plan must be made by the business's tax-filing deadline, including extensions. If your client's business has an extension to October 17, 2022 to file its 2021 tax return, that is the deadline to make the 2021 SIMPLE IRA employer contribution.

Establish and Fund a SEP IRA Plan for 2021

The deadline for establishing a new SEP IRA plan or to make contributions to an existing SEP is the business's tax-filing deadline, including extensions. This makes October 17, 2022, the deadline for 2021 SEP contributions for a business with an extension.

Correct 2021 IRA Contributions

Individuals who made excess contributions to their IRA for 2021 can get relief. If the excess contribution, plus the net income attributable, is withdrawn by October 17, 2022, the 6% penalty will not apply. Excess contributions can also be recharacterized by that date. If a contribution is recharacterized, it will move from one type of IRA to another in a reportable, nontaxable transfer. The contribution will be treated as though it had been originally made to the IRA to which it is recharacterized.

Correcting a contribution by withdrawal or by recharacterization is not limited to excess contributions. IRA owners can correct an unwanted 2021 IRA or Roth IRA contribution by October 17 for any reason — even if it is an allowable contribution and not an excess. (Remember, Roth IRA conversions cannot be recharacterized.)

2022 Year-End Checklist

Deadlines & Advanced Tax Strategies to Implement Before Year's End

October 31

Provide Trust Beneficiary Documentation

If an IRA owner or retirement plan participant named a trust as beneficiary and died in 2021, October 31, 2022 is the deadline for the trustee of the trust to provide required documentation to either the IRA custodian or the plan administrator. This may sound like mere paperwork, but it is critical. If the trustee misses this deadline, the trust will not meet the "look-through rules," and trust beneficiaries may lose advantageous tax treatment for distributions from the trust.

December 31

Take Your Required Minimum Distribution (RMD)

IRA owners who are age 72 or older must take RMDs. Participants in employer plans who are age 72 or older are also subject to RMDs — *assuming they do not qualify for the "still-working exception."* Beneficiaries may also be subject to RMDs. December 31, 2022 is the deadline for taking a 2022 RMD. However, there is an exception for a retirement account owner's first lifetime RMD. If 2022 is the first year an RMD is required, the deadline for that RMD is extended to April 1, 2023.

While RMDs are not required from Roth IRAs during the owner's lifetime, don't forget that RMDs may be required from both inherited IRAs and inherited Roth IRAs. (Under new rules from the IRS, this could be the case even if the inherited traditional IRA is subject to the 10-year rule!) Missing the December 31 deadline can be catastrophic, as a hefty 50% penalty on the amount of the RMD not taken could apply. Advisors can steer clear of this mammoth penalty by closely monitoring clients' accounts. Process RMDs early to avoid last-minute errors.

Do a Qualified Charitable Distribution (QCD)

As the holiday fun gets dialed up in late 2022, don't forget about qualified charitable distributions (QCDs). Identify charitably inclined clients who might benefit from QCDs before year's end. Many people make their charitable gifts in December. QCDs remain a great tax break. IRA owners and beneficiaries who are at least age 70½ are eligible to transfer up to $100,000 tax-free to charities directly from their IRA in 2022. Another benefit of a QCD is that it can satisfy the IRA owner's RMD (as long as the RMD hasn't already been withdrawn). Just make sure the QCD is received by the charity by year's end.

Consider Roth Conversions

Although Roth conversions generate immediate taxation, federal tax rates are historically low and may not stay that way for long. Take advantage of today's low rates by converting traditional retirement accounts to Roth accounts. To qualify as a 2022 Roth conversion, the funds must leave the IRA or company plan by December 31, 2022. (There is no such thing as a "prior-year conversion.") Those who are reluctant to absorb a big tax bill might consider a series of smaller partial conversions over time, using up lower tax brackets. Remember, Roth conversions are permanent, so be certain there are enough funds to pay the taxes before completing the transaction.

2022 Year-End Checklist

Deadlines & Advanced Tax Strategies to Implement Before Year's End

Use the Net Unrealized Appreciation (NUA) Strategy

NUA is a great tax-planning tool for clients with highly appreciated company stock in their 401(k). NUA allows an individual to pay ordinary income tax on the cost basis of the shares — *not the total value of the shares* — when withdrawn. The difference between the two (the NUA) isn't taxable until the shares are sold — and at favorable long-term capital gains rates. Although the NUA strategy can be lucrative, the eligibility rules are strict. For example, the participant's entire account must essentially be emptied (with a few limited exceptions) within one calendar year. Individuals planning to use the NUA strategy need to start the process early enough to ensure the lump sum distribution occurs by December 31.

Split IRAs into Separate Accounts

Another critical December 31 deadline involves splitting inherited IRAs into separate accounts. Beneficiaries have until December 31 of the year following the year of death to split inherited IRAs. One important reason for creating separate accounts is to allow beneficiaries to take advantage of favorable distribution payout rules. But be forewarned, it may take the IRA custodian some time to establish the separate inherited IRA accounts, so pay attention to the calendar.

Take 72(t) Distributions for 2022

IRA owners can tap their accounts before age 59½ without the 10% early distribution penalty if they commit to a series of withdrawals according to rules set out in section 72(t) of the tax code. These payments must continue without modification for five years or until age 59½, whichever is longer. The payments must be taken at least annually. For those using a calendar year schedule, the deadline for the 2022 payment is December 31, 2022. Be sure to leave enough time to take the distribution. Simply starting the process of requesting the payment will not suffice. The payment must be distributed and reported on a 2022 Form 1099-R.

Update Beneficiary Forms

Advisors should keep beneficiary forms for clients' retirement plans on file. These forms should be reviewed at least annually to ensure accuracy. The end of the year is a good time to contact clients to discuss updating their beneficiaries in the wake of life events that may have occurred. Marriage, divorce, death, or having a baby are all reasons where financial planning needs may change.

As the year draws to a close, rule changes resulting from both the SECURE Act and new IRS regulations make the 2022 year-end review more critical than ever.

ED SLOTT AND COMPANY, LLC
America's IRA Experts

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ADVANCED PLANNING

Tax Strategies

The Year-End Tax Conversation That May Save You Money

START THIS IMPORTANT YEAR-END DISCUSSION.

As the year nears its close, it's a good time to consider reaching out to your advisors, including your accountant, financial professional, and, perhaps, attorney. Before you file this year's tax return, you may be able to implement tax strategies that could save you money.

Discover these opportunities as you read through this article.

PERSONAL TAX OPPORTUNITIES FOR INDIVIDUALS AND FAMILIES

Gifting

You can take advantage of making lifetime gifts that will reduce your overall taxable estate. And, if the gift is made to a qualified charity, it may also reduce taxable income for the current tax year.

In 2020, **individuals may gift up to $15,000** per recipient; for **married couples, it's $30,000** per recipient. This is referred to as the *annual gift tax exclusion* and represents the amount anyone can give away every year without paying gift tax. The gift can be made to anyone, with no limit on the number of recipients. However, the gift must be a "present interest" gift, meaning the recipient must be able to use and enjoy it right away; otherwise, it isn't an exclusion gift, and is counted against the donor's lifetime gift tax exemption amount. The lifetime gift tax exemption amount is currently $11,580,000 per taxpayer in 2020.

Use It or Lose It

Setting up a gifting program has several important tax advantages, including reducing the size of your taxable estate and removing appreciation on the gifted amount outside your taxable estate. If you don't make any gifts during the calendar year, that year's annual gift tax exclusion is lost forever.

Continued on next page

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Timing Is Everything

Mailing a gift in late December does not qualify it as a current year gift if the recipient receives it in January of the following year. In the case of checks, a recipient must cash the check on or before December 31 for the gift to qualify as a gift made in the year given. This could make it convenient for you, the donor, to double up on gifting to an individual by giving him or her two checks at year-end holidays, one post-dated to and not deposited until the following year.

The Gift of Education

You may be interested in creating or contributing to **529 Plan** accounts for children or young relatives. Contributions can be made by December 31 as annual exclusion gifts, up to the $15,000 limit. Gifts to 529 accounts can also be accelerated with five years' worth of annual exclusions, or $75,000, allowing you, the donor, to make a significant gift without using any of your lifetime exemption. Note that, if the five-year cumulative gift is made, you'll forgo the ability to utilize any intervening increase in the annual exclusion amount for the same beneficiary.

ABLE Accounts, which are similar to 529 Plans but specifically for disabled individuals, do not permit five-year accelerated funding.

Gifting Through a Trust

You may be leery about giving cash or property directly to a family member or other person. Using a trust to hold the assets can be the solution. So long as the intended recipient is a trust beneficiary, you may still exclude the gift from tax and reporting requirements, provided certain rules about beneficiary notifications and withdrawal privileges are followed.[1]

An **Irrevocable Life Insurance Trust (ILIT)** can be a good way to leverage gifts and provide for family members, including children and grandchildren (and also your (the grantor's) spouse, if the trust document provides your spouse access to policy cash values). The trust is the owner and beneficiary of a life insurance policy and gifts made to the trust can be used to pay premiums. If the ILIT is properly drafted and administered, the trust can receive the life insurance death benefit free of income and estate taxes.[2]

Where you do not have time to establish a written trust before year-end, it is even possible to make annual exclusion gifts in trust without a written trust document. You can discuss so-called parol or oral trusts with your tax and legal advisors to see if such an opportunity is available.

[1] For a gift to qualify for the "annual exclusion," it must be a "present interest" gift. For the gift to be considered a present interest gift, the trust beneficiaries should be given "Crummey powers of withdrawal" over gifts made to the trust.

[2] Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.

Lifetime Gift Tax Exemption

In addition to annual exclusion gifts, you may be able to make tax-free gifts of cash and other assets by using the lifetime exemption mentioned earlier. The exemption amount is indexed for inflation, and is currently $11,580,000 per taxpayer in 2020.

If you're **married to someone who is not a U.S. citizen**, gifts or transfers of property up to $157,000 can be made in 2020 without tapping into your (the donor's) lifetime gift tax exemption amount referenced above.

There are several perennial reasons to gift using the lifetime exemption. Most notably, it can be an effective strategy for removing future appreciation from a donor's estate. However, for year-end purposes, probably the most compelling reasons change from year to year; your tax advisor can provide you with expert guidance.

Things Change

The tax code is ever evolving. It's one of the more important reasons that this year-end tax conversation should take place. There are many proposals in Congress that could impact your future gifting decisions. These include reducing the lifetime exemption. The potential implications of this proposal are beyond the scope of this article, and you should consult your tax and legal advisors to assess the need for any action.

Giving Back: Charities

Direct gifts to charity involve an outright transfer of cash or property, which must be received by the charity on or before December 31 for you, the donor, to benefit from an income tax deduction in the current year. Year-end gifts to charity can provide you with a current tax deduction. In addition, if the value of the deduction exceeds the allowable amount based on your adjusted gross income (AGI), the unused portion can be carried forward and deducted for the next five tax years.

The deduction for charitable contributions **cannot exceed 60% of AGI**, and lower percentage limits can apply, depending on the type of donated property and the type of recipient organization. The **60% limit applies to gifts to qualified organizations** that are public charities or private operating foundations, such as churches, certain educational organizations, hospitals, and certain medical research organizations associated with hospitals. Most organizations can tell you whether or not they are 60% limit organizations.

Deductions for charitable contributions made to **organizations that are NOT 60% limit organizations cannot be more than 30% of AGI**. Organizations that are not 60% limit organizations include veterans' organizations, fraternal societies, nonprofit cemeteries, and certain private, non-operating (grant-making) foundations.

Capital gain property is property that would have resulted in realized long-term capital gains had it been sold. See the chart to follow for a general summary of AGI deduction limits by type of gift and charity, respectively.

PERCENT OF AGI THAT CAN BE DEDUCTED		
Type of Gift	**Type of Charitable Recipient**	
	Public Charity	**Private Charity/Foundation**
Cash	60%	30%
Ordinary Income	50%	30%
Capital Gain	30%	20%
Gifts Made by C-Corp, or Entity Taxed as Corporation (regardless of type of property transferred)	10%	10%

Charitable trusts may be established for the sole benefit of a charity, or for the benefit of charities and individual non-charitable beneficiaries ("split-interest trusts"). Depending on the type of split-interest charitable trust, the income and the principal from the gift is split between you, the donor, and the named charity. If a split-interest trust qualifies as a **charitable remainder trust** or a grantor **charitable lead trust**, the donor can claim a charitable deduction for the value of the interest passing to a charity. Remainder trusts and lead trusts can be settled during your (the grantor's) life or at death.

A Charitable Solution: Required Minimum Distributions

Many wealthy people may not need the money they've accumulated in their tax-qualified and Roth IRAs. A person age 72 or older can make direct charitable gifts from an individual retirement account of up to $100,000 per year to public charities (other than donor advised funds and supporting organizations) without including the IRA distributions in taxable income. Most grant-making private foundations are ineligible recipients, but private operating foundations are eligible. **The amount of the contribution counts toward the required minimum distribution for the year**.

This provision applies only to traditional IRAs and Roth IRAs. Special rules apply to the ordering of distributions where the account owner has previously made non-deductible contributions.

Gifting Qualified Land Conservation Easements

A donation of a conservation easement involves granting the rights to control development of real property to a qualifying public or private land trust. The land trust stewards the property and ensures that the provisions of the easement are followed.

In most cases, the grant is for perpetuity, and is always irrevocable. When donating an easement, you don't give up ownership of the property, however: You can continue to use it, and give or devise it to anyone, subject to the easement. But the easement has the effect of reducing the property's market value, giving rise to a federal charitable income tax deduction, based on the change in value, before and after the placement of the easement.

An easement may require the property to remain agricultural, to remain or revert to wildlife habitat, to maintain certain historical features (causing even urban properties to qualify), or to be limited to any of a certain number of uses, even if the property isn't devoted to any of them presently. The federal income tax deduction limit for a qualified conservation easement is currently 100% of AGI for agricultural property and 50% of AGI for all other types of land. The unused federal charitable deduction can be carried forward for 15 years. In addition, the estate is allowed an exemption of 40%, up to $500,000, on the already-reduced value of the land for estate tax purposes.

Moreover, the income tax savings from the conservation easement can be used to fund a life insurance policy that will restore the value of the land for the benefit of your heirs.

To Gift or Not to Gift: Managing Tax Cost Basis

Because income-tax rates for the highest income earners are comparable to the maximum gift and estate tax rate of 40%, it is important to consider the basis of an asset prior to making a gift. Whereas assets held until death get a step-up in basis to their fair market value, assets transferred by gift do not get the same treatment. Instead, the lesser of your (the donor's) cost basis or the asset's fair market value carries over to the recipient and becomes the recipient's basis. For this reason, gifts of cash or assets with a higher basis may make more tax sense in the long run than gifting low-basis assets.

Maximizing Annual Limits for Qualified Defined Contribution Plans and IRAs

For **traditional and Roth IRAs**, December 31 doesn't present an actual funding deadline; taxpayers have until April 15 both to establish and to make contributions to their accounts for 2020.

In the case of **defined contribution plans**, December 31 does present a cutoff for wage earners, who may not make elective deferrals for 2020 after that date. However, year-end strategies are largely restricted to increasing the employee's plan contribution rate because plans generally do not allow participants to make lump sum deposits outside of the wage cycle.

You May Wish to Consider These Two Retirement Savings-Related Tax Strategies

HIGH INCOME EARNERS STRATEGY:

If your total compensation exceeds the Social Security wage base ($137,700 in 2020), you may wish to consider increasing your defined contribution payroll deduction rate after your year-to-date earnings exceed the wage cap. At that point, your employer will stop deducting the 6.2% OASDI (Social Security) tax from wages, creating an additional savings opportunity for you, with no decrease in take-home earnings.

IRA CONVERSION STRATEGY:

As year-end approaches, you could make a partial Roth IRA conversion. Since your probable full-year compensation is understood by this time, a partial Roth IRA conversion may be structured to "fill out" part or all of the highest tax bracket you will occupy. For example, if your annual earnings will finish at $250,000 (married filing jointly – 2020) for the year, $78,950 of that will be included in the 24% federal income tax bracket. This leaves $76,600 "left" in the bracket before the next highest tax rate of 32% applies. If you are comfortable paying 24% tax on the conversion, but no more, there may be an opportunity to convert up to $76,600 of a traditional IRA to a Roth IRA without entering a higher tax bracket. (Combined with your lower-tiered income, the actual effective rate will be less than 24%). This example assumes a federal filing status of married, filing jointly.

TRADITIONAL AND ROTH IRAS	
Contribution Limits	2020
Regular	$6,000
Catch-Up*	$1,000

*Only taxpayers age 50 and over are eligible to make catch-up contributions.

Roth Contribution Phase-Out		
Modified Adjusted Gross Income (MAGI) phase-out range for contributions to Roth IRAs		
Married filing jointly: $196,000 – $206,000 (2020)	Married filing separately: $0 – $10,000 (2020)	Single filer: $124,000 – $139,000 (2020)

No annual income limit for determining ability to convert traditional IRA to Roth IRA continues.

TRADITIONAL IRA DEDUCTIBILITY RULES			
Filing Status	Covered by Employer's Retirement Plan?	Modified AGI 2020	2020 Deductibility
Single	No	Any amount	Full deduction
	Yes	$65,000 or less $65,001 – $74,999	Full deduction Partial deduction
		$75,000 or more	No deduction
Married filing jointly	Neither Spouse Covered	Any amount	Full deduction
	Both Spouses Covered	$104,000 or less $104,001 – $123,999	Full deduction Partial deduction
		$124,000 or more	No deduction
	One Spouse Covered for Covered Spouse	$104,000 or less $104,001 – $123,999	Full deduction Partial deduction
		$124,000 or more	No deduction
	One Spouse Covered for Non-Covered Spouse	$196,000 or less $196,001 – $205,999	Full deduction Partial deduction
		$206,000 or more	No deduction

QUALIFIED PLANS	
	2020
Maximum elective deferral to retirement plans (e.g., 401(k), 403(b), and 457 plans, and Salary Reduction Simplified Employee Plans (SARSEPs))	$19,500
Maximum elective deferral to SIMPLE 401(k) plans	$13,500
Limit on annual additions to SEP plans	$57,000
Annual compensation threshold requiring Simplified Employee Plan (SEP) contribution	$600
Limit on annual additions to defined contribution plans	$57,000
Maximum annual compensation taken into account for contributions	$285,000
Annual benefit limit under defined benefit plans	$230,000
Threshold amount for definition of highly compensated employee	$130,000
Threshold amount for definition of key employee/officer in top-heavy plans	$185,000
Catch-Up Contribution Limits for Other Qualified Plan Types	2020
401(k), 403(b), SARSEP, and 457 plans	$6,500
SIMPLE plans	$3,000

Managing Gains and Losses to Your Advantage

To take advantage of **capital gains or losses** for 2020, assets must be sold by December 31, 2020. For tax year 2020, long-term capital gains rates can vary from 0% to 20%, depending on the taxpayer's highest ordinary income tax bracket. In addition, high-income earners may pay an additional 3.8% tax on capital gains.

Since capital gain and loss is aggregated on the year, taking losses can sometimes make sense to offset or eliminate tax on gains. If you don't wish to cash out of a loss position because you believe in a security's long-term appreciation potential, you should know that a loss can be realized on a security, and it can then be repurchased, as long as 30 days elapse between the transactions.

The tax deduction for capital losses is limited to $3,000 per taxpayer per year, but excess loss may be carried forward for an unlimited number of tax years.

TWO QUICK IDEAS: POTENTIAL TAX DEDUCTIONS TO CONSIDER

1. **Change from a "pay-as-you-go" approach to income and property taxes.** Taxpayers can pay these taxes even before the taxes are due, and be credited later. The advantage is that paying next year's taxes this year is a deductible expense on this year's federal Form 1040, Schedule A.
2. **Make January's mortgage payment by December 31.** The interest portion of the payments will show up on the taxpayer's 1098 mortgage interest statement for the current year. It's important not to apply the money solely toward mortgage principal, as payment of principal is non-deductible. Rather, the payment should be remitted to the mortgagee as the ordinary, scheduled monthly payment of principal and interest, so the interest portion can be deducted.

YEAR-END TAX STRATEGIES FOR BUSINESS OWNERS

Self-employed individuals or business owners with relatively few employees may consider **establishing certain qualified plan types by year-end**; they'll have until April 15, 2021, (or October 15, 2021, if an extension is requested) to actually fund such plans for 2020. A self-employed business owner, for example, can set up an **individual 401(k)** or **Roth 401(k)** or **defined benefit plan** this year and fund it for 2020 in 2021.

Under the 2020 solo **401(k)** contribution rules, a plan participant can make a maximum employee deferral contribution in the amount of $19,500 ($26,000 with the over-50 catch-up). That amount can be made pre-tax or after-tax (Roth). The business itself can make a 25% (approximately 18% in the case of a sole proprietorship or single member LLC) **profit sharing contribution**, up to a combined maximum, including the employee deferral, of $57,000. However, only the employer portion can be contributed after December 31 to qualify for the tax year.

One of the main benefits of a solo 401(k) is the opportunity to make higher contributions. Under most retirement plans that a self-employed taxpayer could establish, the maximum annual deductible contribution is 25% of the business owner's compensation.

A **defined benefit plan**, while more complex, may afford a much larger deductible contribution than a defined contribution plan. These plans are open to any type of business and all owners and employees without restriction.

While many people may think of them as only suitable for large businesses, the fact is that they may be even more appropriate for small businesses because they can be **designed to provide a more significant benefit to the owners** than certain other types of retirement plans.

Many middle-aged business owners can benefit from this type of plan if they have strong cash flows and want a way to accelerate savings for retirement. This may be especially true for those who got a late start or whose businesses took time to hit their strides. Because defined benefit retirement benefits are based upon individual income history, a participant may be able to experience the same lifestyle he or she enjoys today while in retirement.

The Important Role of Life Insurance

Chances are that a business owner who has the cash flow necessary to fully fund a defined benefit pension plan **may also need life insurance for income protection, wealth transfer, or an estate strategy**. Life insurance may be owned by the plan, subject to certain "incidental benefit" rules, with the effect of causing the cost of the business owner's personal life insurance coverage to qualify for a tax deduction.

You may be able to take advantage of many tax strategies before the end of the year. Working with a team that includes you, your financial professional, and your tax and legal advisors, there are several opportunities to potentially lower your tax bills. Start this important conversation now and you may be able to save on your year-end federal income tax.

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Charitable gifting to help maximize your client's tax deduction

How your clients can give and receive with a smart gifting strategy

Many Americans may want to give to their favorite charity, but are reluctant because of today's tax environment. That's because the Tax Cuts and Jobs Act increased the standard deduction to $12,400 for individuals and $24,800 for married couples who file jointly. Because most taxpayers are likely to use the standard deduction, philanthropists need a new strategy for making charitable gifts.

Here's how your clients can get a full charitable deduction by making a larger gift every few years with a variable universal life (VUL) policy.

Meet Phyllis

She's age 55 and in good health.

Phyllis is retired and spends time helping her favorite animal shelter find donors. While she's made substantial donations to the shelter, she wants to do more for the rescue organization.

Why Phyllis chooses life insurance for charitable giving

- She creates a larger gift with a smaller financial contribution.
- She gets the tax advantage of a full charitable deduction.
- The charity receives cash value distributions plus the death benefit.

How the gifting strategy is designed to work

Phyllis purchases a VUL policy with an $80,000 single premium. She designates the animal shelter as the policyowner and beneficiary, and they can take distributions from the cash value. Since the shelter is tax-exempt, there are no potential tax implications due to loans.

The outcome: Her gift can potentially more than double

$80,000 single premium VUL policy	
$8,000 annual cash value to charity via loan proceeds for 21 years[1]	**$168,000 tax-free distributions**
An additional tax-free benefit received by the charity if Phyllis dies at age 100	**$429,043 tax-free death benefit**
	$597,043 potential total gift
Tax benefit for Phyllis	
Phyllis can itemize this current contribution on her tax return and gain a tax benefit for her charitable gift.[2]	**$80,000 itemized charitable deduction**

Hypothetical illustration assumes female, age 55, preferred plus, $80,000 single premium, level death benefit option. Solve for minimum level death benefit. Assumes 8.0% rate of return and current charges. **Annual fixed loans of $8,000 ages 65–85. At 0% return and annual fixed loans of $8,000 in ages 65–67, policy lapses in year 16.**

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The Lincoln National Life Insurance Company
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- **Solid financial protection** with no-lapse protection for up to 20 years[4]
- **Access to cash value** tax-free for future needs like retirement
- **Tax advantages** for you and your heirs without impacting income taxes

To discuss a case or learn more about tax-efficient charitable gifting strategies, contact your Lincoln representative.

[1] As long as your account value is at a sufficient level, you can take loans or withdrawals. This reduces the account value and death benefit, may cause the policy to lapse, and may have tax implications. Withdrawals and surrenders are tax-free up to the cost basis, provided the policy is not a modified endowment contract (MEC). This policy would be considered a MEC. If surrendered, the cash surrender value may be worth more or less than total premiums paid. Withdrawals from an indexed account before the end of the segment term will not receive credited interest. [2] Once a pattern of giving has been confirmed, the gift amount will be based on the annual gift or a percentage of an individual's net worth. [3] Policy values will fluctuate and are subject to market risk and possible loss of principal. [4] If the no-lapse benefit expires or terminates, the account value must be sufficient to keep the policy in-force or additional premiums will be required to avoid the policy lapse. Paying only the premium required to satisfy the no-lapse guarantee may lessen the potential for build-up of the policy's account value.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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ADVANCED PLANNING

Creating a Lifetime Legacy by Using Annual Gifting Exclusions for Life Insurance

The Prudential Insurance Company of America

1000362-00005-00 Ed. 07/2022

Creating a lifetime legacy.

If your hard work and careful preparation have brought you financial wellness and rewards beyond what you need to live comfortably, lifetime gifting may make sense. By using annual gifting exclusions, you can:

- Enjoy seeing beneficiaries receive some of your wealth during your lifetime.
- Give money to your recipients of choice without gift tax consequences.
- Reduce the value of your estate, eliminating or reducing your potential estate tax exposure.

KNOWING IF THIS STRATEGY IS RIGHT FOR YOU.

You have several options available to you for passing along your wealth.

You have several options available to you for passing along your wealth. Certain criteria can help you determine whether to consider the strategy presented here.

This gifting strategy may benefit you and your family if you:

- Are single or married and age 55 or older.
- Have children or grandchildren.
- Have assets that you want to gift and do not intend to use during your lifetime and that are not needed for support in retirement.
- Have a minimum net worth of $5,000,000 and sufficient liquid assets to support the strategy.
- Desire to provide for and leave more to your children or grandchildren.
- Would like to minimize taxes.

WHAT YOU CAN GIFT.

Under current federal law, U.S. citizens and resident aliens can make gifts of "present interest" up to the annual gifting exclusion amount without incurring federal gift tax. "Present interest" means that the recipient must be able to enjoy the gift immediately with no strings attached.

For 2022, the annual gifting exclusion is $16,000[1] per individual, per recipient. So by using a unified gifting strategy, married couples can double this amount to $32,000 per recipient since each spouse is allowed the exclusion amount.

[1]The gift tax exclusion amount is indexed annually.

Step 1: Using Annual Exclusions

A wealthy married couple with three children can reduce their taxable estate by $96,000 in 2022 just by making annual exclusion gifts to each of their children.

HUSBAND		WIFE		TOTAL
$16,000 annual exclusion	+	**$16,000** annual exclusion	=	**$32,000** per recipient

It is important to remember that unused annual gifting exclusions do not carry over and accumulate. From year to year, you either make use of the exclusion amount or lose it.

Making your exclusions work harder.

Irrevocable Life Insurance Trust (ILIT)

One way to help make your gifting exclusions work even harder for you and your beneficiaries is through annual gifting to an **Irrevocable Life Insurance Trust (ILIT)**. This is a trust specially drafted to own life insurance for the benefit of the beneficiaries of the trust. These beneficiaries have an insurable interest in the person being insured. The trustee can then use your annual gifts to pay the premiums on life insurance covering either you or you and your spouse jointly.

ANNUAL GIFTING TO AN IRREVOCABLE LIFE INSURANCE TRUST (ILIT).

This strategy may:

- Deliver value to beneficiaries through a death benefit that could be significantly greater than the sum of gifts made to the trust for premium outlay, depending on your health and age upon purchase.
- Reduce your taxable estate.
- Provide an income and estate tax-free death benefit that can be used to help offset any estate settlement costs, including potential estate taxes.

The irrevocable nature of an ILIT prevents it from being changed in the future and helps ensure that contributions are completed gifts for gift tax purposes. However, most well-drafted trusts can be flexible enough to adjust for future changes to circumstances, despite their irrevocable nature. Please consult with your attorney for specific information.

BENEFITS OF USING AN ILIT.

When an ILIT is properly drafted and administered, it can help you:

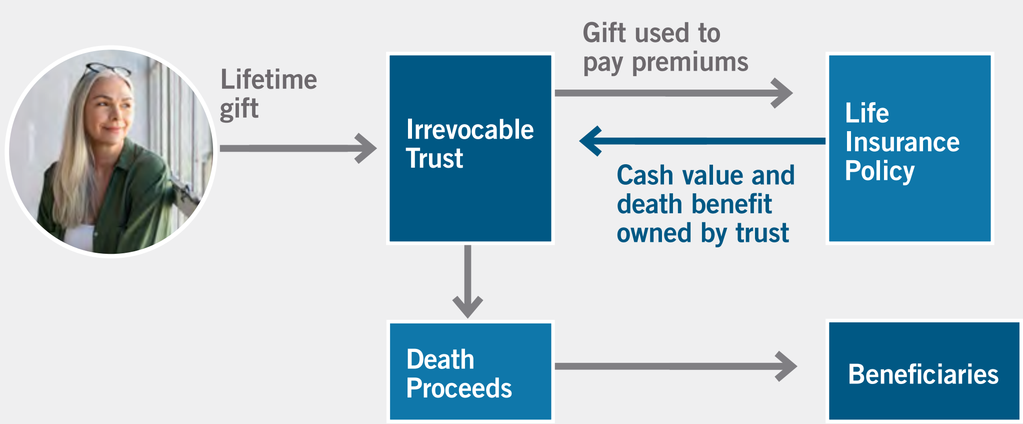
- Protect assets from creditors of trust beneficiaries.
- Provide for beneficiaries who may lack the maturity and/or responsibility to effectively manage large amounts of wealth.
- Establish controls around how the trust assets are managed, distributed, and ultimately received by your beneficiaries.
- Reinforce your value system by establishing additional controls such as incentive provisions, which can influence beneficiaries to behave in certain ways and live out or avoid certain kinds of lifestyles.
- Benefit multiple generations including a first-generation spouse, children, and grandchildren.

HOW AN ILIT WORKS

To implement this strategy, you would work with your attorney to draft the trust document. Once that's created, you would then make a gift to the trust. The trustee, whom you select, is then responsible for managing trust assets and distributing them to the beneficiaries according to the terms of the trust.

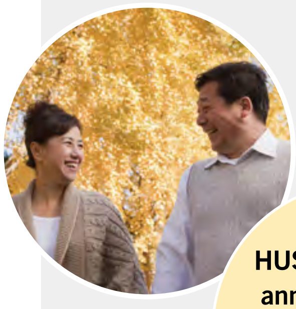
To accomplish its purpose, the ILIT must be both the owner and beneficiary of a life insurance policy. The premiums are typically paid with gifts made to the ILIT from the grantor of the trust.

Upon the grantor's death, the proceeds are paid to the ILIT and the trustee may distribute the proceeds to the trust's beneficiaries in accordance with the ILIT's terms. The life insurance proceeds are generally received income tax-free[2] by the ILIT and, assuming the trust is properly drafted and administered, the life insurance proceeds will also be excluded from the insured's estate.



[2]Pursuant to U.S. IRC §101(a).

Step 2: Funding an ILIT Using Life Insurance



Consider a 65-year-old husband and 60-year-old wife living in Florida. The couple has one adult son. They decide to combine their exclusions to gift $32,000 annually for 10 years to fund an ILIT for the benefit of their son. The trustee can use the gifts to purchase a survivorship (second-to-die) life insurance policy insuring the parents. Husband and wife are both underwritten as preferred non-tobacco risks.

HUSBAND + WIFE annual exclusions combined = $32,000 annually for 10 years to fund an ILIT

→

ILIT purchases life insurance policy with a death benefit of over $1 million[3]

→

Son is named as trust beneficiary

The trust will receive the death benefit free of both federal estate and income taxes. The policy pays the death benefit upon the second death, which is when the couple's estate must be settled.

[3]This information is hypothetical and not representative of any particular product.

DISCOVER MORE.

Explore how an annual gifting strategy might benefit you and your beneficiaries by talking to your financial professional today. If you decide to incorporate life insurance, Prudential has the experience, products, and service to help make your strategy a success.

IMPORTANT CONSIDERATIONS

BEFORE IMPLEMENTING THIS STRATEGY

- Any investment that you plan to purchase or pay for during retirement involves the use of your income or other assets. You should be certain you will have sufficient liquid assets to support your current and future income and expenses before considering the purchase of a life insurance policy. Equity in the home should **not** be considered a liquid asset.
- You should consider developing a comprehensive financial strategy to take into account current and future income and expenses in conjunction with implementing the strategy discussed here.
- We recommend that you consult your tax and legal advisors to discuss your situation before implementing the strategy discussed here.

ABOUT THIS CONCEPT

This concept is intended to be used only for assets that will not be needed for living expenses for the expected lifetime of the insured. It is your responsibility to estimate these needs and expenses and it is recommended that you consider developing a comprehensive financial strategy in conjunction with implementing the strategy being considered. The accuracy of determining future needs and expenses is more critical for individuals at older ages and who may have less opportunity to replace assets used for the strategy.

IF YOUR FINANCIAL OR LEGACY SITUATION CHANGES

- If you need to use your assets or income for current or future income needs, and you can no longer make premium payments, the life insurance policy may lapse and the results illustrated may not be achieved.
- If the asset or income being repositioned becomes fully exhausted, premiums may have to be paid using other assets or income to keep the life insurance policy in force.

WHEN THIS STRATEGY MAY NOT BE IN YOUR BEST INTEREST

Depending on your life span, it is possible that your beneficiary may receive more by just inheriting the assets being repositioned, rather than by receiving the death benefit of the life insurance policy that was purchased.

TAX AND OTHER FINANCIAL IMPLICATIONS

- There may be tax and other financial implications as a result of liquidating assets within an investment portfolio to purchase life insurance. If contemplating such a strategy, it is important to understand that life insurance is a long-term strategy to meet particular needs.
- The sale or liquidation of any stock, bond, IRA, certificate of deposit, mutual fund, annuity, or other asset may have tax consequences, early withdrawal penalties, or other costs or penalties as a result of the sale or liquidation.

ABOUT LIFE INSURANCE

- The death benefit protection offered by a life insurance policy can be a key component of a sound financial strategy.
- It is important to fully understand the terms and conditions of any financial product before purchasing it.

OTHER NOTES

- You should consider that life insurance policies contain fees and expenses, including cost of insurance, administrative fees, premium loads, surrender charges, and other charges or fees that will impact policy values.
- If premiums and/or performance are insufficient over time, the policy could require additional out-of-pocket premiums to keep it in force.

This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any client or prospective clients. The information is not intended as investment advice and is not a recommendation about managing or investing your retirement savings. If you would like information about your particular investment needs, please contact a financial professional.

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Not Insured by FDIC, NCUSIF, or Any Federal Government Agency. May Lose Value. Not a Deposit of or Guaranteed by Any Bank, Credit Union, Bank Affiliate, or Credit Union Affiliate.

1000362-00005-00 Ed. 07/2022

ADVANCED PLANNING

Legacy Advantage

AN ASSET REPOSITIONING STRATEGY

Life Insurance

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Prudential

1009669-00005-00 Ed. 03/2022

Are you someone who:

- Is age 59½+ and family oriented
- Has a minimum net worth of $1 million and sufficient liquid assets to support this strategy
- Has assets that you do not intend to use during your lifetime and are not needed for support in retirement
- Has a financial strategy that you have developed in conjunction with your financial professional that indicates that you have sufficient income from other sources to meet current and future retirement income needs and expenses
- Wants to provide for and leave more to children or grandchildren
- Wants to potentially enhance your legacy
- Wants to counter potential losses to your legacy assets

If this describes you, read on to learn how **Legacy Advantage**, a life insurance strategy, could benefit you and your family and help to preserve your assets for the next generation.

PRESERVE AND POTENTIALLY ENHANCE YOUR LEGACY

LEGACY ADVANTAGE CAN BE AN EFFECTIVE STRATEGY

Legacy Advantage can be an effective strategy that involves repositioning those assets that you do not expect to need during life (your legacy assets) to pay premiums for life insurance policy. The benefit of this strategy is that it can help you preserve and potentially enhance your legacy.

While there are benefits associated with this wealth strategy, there are also risks and potential tax consequences. You should consider this strategy only in situations in which you have assets that are not intended to be consumed during your lifetime and can be repositioned to pay permanent life insurance premiums.

Threats to Your Legacy

Hard work, sacrifice, and preparing for the future are why you have enough income to provide for yourself and your family. However, if your goal is to pass your wealth on to the next generation, there are a number of threats, such as taxes and chronic illness, that you need to consider. Without adequate preparation, these threats could erode the legacy that you plan to leave to your children, grandchildren, or favorite charity.

The Impact of Taxes

If you pass tax-deferred assets, such as an IRA, on to your beneficiaries, your heirs may be required to pay income taxes upon distribution. This could potentially erode the value of these assets. In addition, based on the size of your estate at death, federal and/or state estate taxes may also be imposed on your assets. There are also six states that currently impose inheritance taxes.

Do you currently have a strategy to help minimize the impact of taxes on the legacy you'd like to leave to your loved ones?

The Risk of Chronic Illness

A chronic illness can be just as financially and emotionally devastating to your family as an untimely death. Someone turning age 65 today has almost a 70% chance of needing some type of long-term care services and supports in their remaining years;[1] this is an issue that can potentially impact you. Although about 73%[2] of long-term care is provided at home and the caregiver is typically a family member, there could still be financial impacts to you and the ones you love that you should consider preparing for.

Some life insurance policies offer a rider that, should you become chronically or terminally ill, can provide you with money by accelerating the death benefit (paying all or a portion of it to you over time and while you're still living). You can choose to use this money for any purpose, including to help pay for expenses. Such a rider may help you to avoid liquidating other assets. It's important to note, however, that accelerating the death benefit will decrease, or may eliminate, the legacy you were expecting the death benefit to provide to your policy's beneficiaries.

[1] U.S. Dept. of Health and Human Services, *How Much Care Will You Need?*, accessed February 2022 (https://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html).

[2] National Care Planning Council, *About Long Term Care at Home*, accessed February 2022 (https://www.longtermcarelink.net/eldercare/long_term_care_at_home.htm).

Legacy Advantage Can Help

If you have tax-deferred assets, such as an IRA, that you want to pass on to your heirs, you can choose to protect and potentially enhance the value of these legacy assets by using some of the asset itself or the income it generates to purchase a life insurance policy.

As long as sufficient premiums are paid, life insurance can provide a generally income-tax-free death benefit to the policy's beneficiaries that can be predictable and will not fluctuate based on economic forces or market performance.

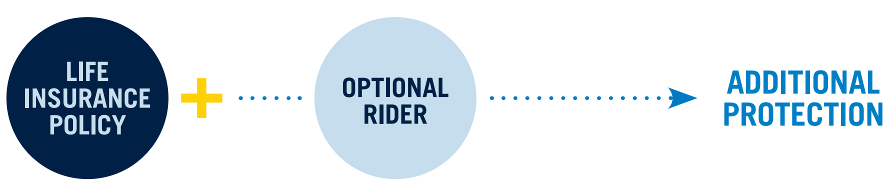
Some policies can also be paired with optional riders, typically for an additional cost, to provide expanded protection. For example, a rider may allow you to accelerate your death benefit to receive income if you become chronically or terminally ill or if you are permanently confined to a nursing home or need a life-saving organ transplant.

To execute the Legacy Advantage strategy, you could take a withdrawal from the asset or redirect its income, which may be subject to income tax, and use the after-tax proceeds to pay premiums on a life insurance policy with an optional rider for chronic and terminal illness.

Upon your death, the life insurance proceeds are generally received income tax-free. Your heirs can use these proceeds to help offset the impact of taxes on your legacy and potentially enhance the overall wealth they receive.

And if you become chronically or terminally ill, an optional rider could allow you, the policyowner, to advance a portion of the death benefit and/or receive monthly income.

However, any amounts accelerated under the rider will reduce the death benefit and may result in beneficiaries receiving less or no life insurance proceeds at death if the death benefit is fully exhausted while you are alive. While these types of riders are not designed to cover all the costs associated with a chronic or terminal illness, they can help you to pay expenses. Additionally, these riders are not long-term care (LTC) insurance or intended to replace LTC insurance, but rather are intended to be a supplement.



UNDERSTANDING THE ADVANTAGE

Although there are many strategies to leave wealth to the next generation, Legacy Advantage can:

- Help **take care of loved ones** after your death.
- Provide a **generally income-tax-free benefit**, according to IRC §101(a), that can help offset the income taxes owed by beneficiaries after receipt of the balance of the tax-deferred asset.
- Potentially increase your legacy through **tax-deferred growth**.
- Provide **accelerated life insurance death benefits** if you become chronically or terminally ill.

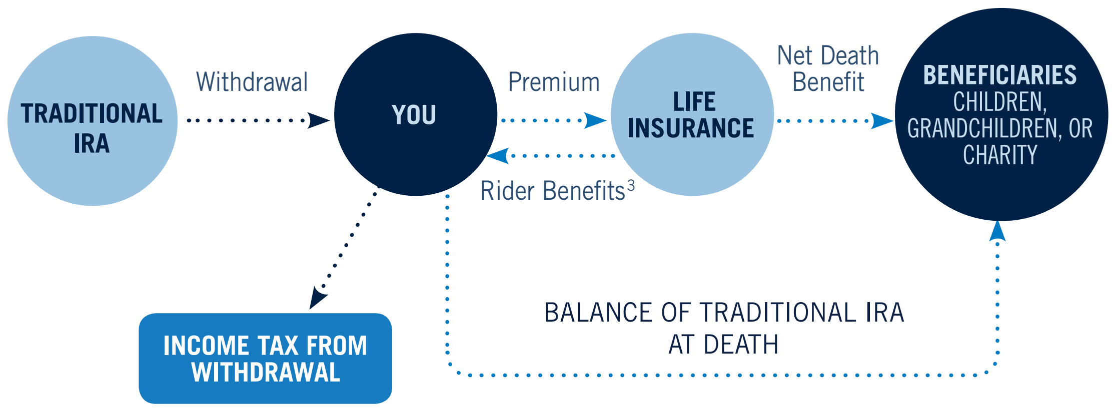
THERE ARE A FEW IMPORTANT THINGS TO KEEP IN MIND

- Legacy assets may be found in a multitude of financial instruments and there may be income tax consequences that result from withdrawals and repositioning these assets.
- The hypothetical examples to the right and on the following pages only depict federal income taxes.
- If your estate is large enough, your legacy asset could be included in your estate and may be subject to estate taxes when it is transferred to the next generation. However, these hypothetical examples assume that your assets are not subject to estate taxes.

Legacy Advantage Using Life Insurance

As you can see in the diagram, the hypothetical client can begin taking distributions post age 59½ or use his or her required minimum distributions beginning at age 72 to purchase a life insurance policy with an optional rider for chronic and terminal illness.

After the insured's death, the death benefit proceeds from the life insurance policy are directed to the insured's children, along with the remaining value, if any, of the IRA.



BENEFITS OF THIS STRATEGY USING LIFE INSURANCE

- Can help replace income and provide for your loved ones following death.
- Provides flexibility to access the death benefit under a chronic illness rider upon being diagnosed as chronically or terminally ill and otherwise qualifying for benefits.
- Benefits are generally received income tax-free, which can help to offset the impact of income taxes for other assets that are transferred to your beneficiaries upon your death.
- The death benefit is generally not subject to the price and interest rate volatility inherent in the equity and fixed-income markets.
- May enhance the ultimate values received by heirs or a favorite charity.

[3] Chronic or terminal illness rider benefits may reduce or possibly eliminate the death benefit available to policy beneficiaries and may have other adverse consequences.

A Hypothetical Case Study

Client:
JUDY HILL, 68
Two sons

WILLIAM, 42

TYLER, 40

Judy, our hypothetical client, is a 68-year-old retiree with two sons. She would like to enhance and protect her legacy, and help protect herself against the potential financial impact of a chronic or terminal illness.

- **Assets:** $300,000 home, $1,000,000 of cash and investable assets, and a $700,000 IRA.
- Has income from a defined benefit plan and sufficient income from other assets to meet current and future income needs.
- IRA earmarked as legacy money.[4]
- Would like to leave more to her two sons.
- Concerned about the financial impact of unexpected costs associated with a chronic or terminal illness.

THE APPROACH

Let's assume that Judy takes **$20,000 of cash annually** to pay annual premiums on a life insurance policy with an optional chronic and terminal illness rider.

We are assuming a 5% rate of return on the IRA assets.

THE RESULT

Judy could, based on her age, health (Preferred Non-Tobacco), and product choice, obtain roughly **$723,915[5] in death benefit protection**. Either this value could be used to enhance her legacy, or the death benefit could be accelerated to provide her with funds if she becomes chronically or terminally ill as defined by the rider.

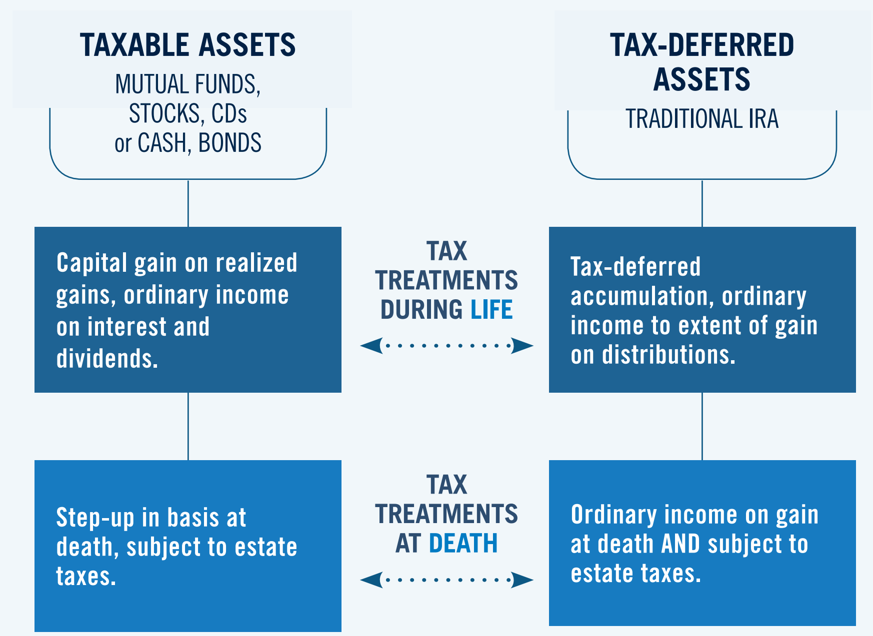
[4]Effective January 1, 2020, the SECURE Act requires many types of beneficiaries to completely withdraw all assets from inherited IRAs within 10 years and pay the resulting tax liability. The 10-year rule does not apply to eligible designated beneficiaries. Eligible designated beneficiaries include surviving spouses, disabled and chronically ill individuals, minors, and those who are not more than 10 years younger than the account owner.

[5]This information is for illustrative purposes only. This is based on representative rates in the marketplace for single-life policies effective as of the date of publication.

LIFE INSURANCE OFFERS A TYPICALLY INCOME-TAX-FREE OPTION

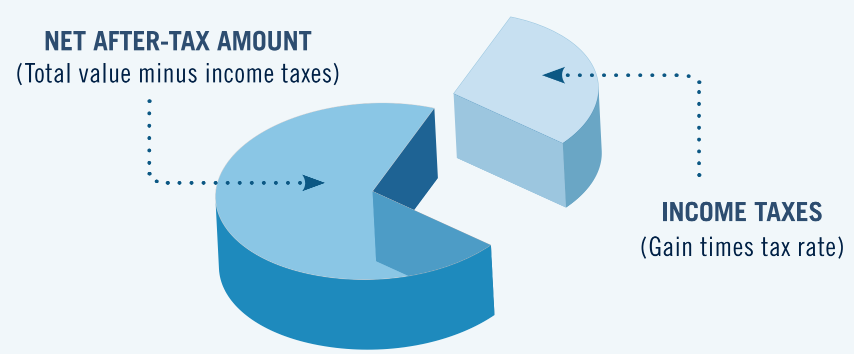
A significant portion of your legacy could be lost to taxes. If you pass a taxable or tax-deferred asset on to your loved ones, they will, depending on the value of your estate, be required to pay estate taxes. Additionally, your loved ones may also be required to pay income taxes after receiving the proceeds from your estate. Life insurance, however, pays a typically income-tax-free death benefit to its beneficiaries, according to IRC §101(a).

TAXABLE ASSETS VS. TAX-DEFERRED ASSETS



Life insurance has fees and charges (including surrender charges) and may be less liquid than other "taxable" assets. Additionally, sufficient premiums need to be paid to keep the policy from lapsing.

TRADITIONAL IRA LIQUIDATION VALUE



Assumes the IRA is liquidated by one beneficiary at IRA owner's death as a lump sum subject to a tax rate of 37%. There may be other options available besides a lump sum.

TAX RATE = Combined federal and state marginal income tax rates

GAIN = Total value minus cost basis (traditional IRAs may be 100% taxable)

Can you afford the cost of a chronic or terminal illness?

ARE YOU PREPARED FOR A CHRONIC OR TERMINAL ILLNESS?

A chronic or terminal illness can be just as emotionally and financially challenging to your family as your untimely death.

QUESTIONS TO CONSIDER

- Are you adequately positioned to handle the financial and emotional impact that your chronic or terminal illness could have on your family?
- Have you considered the effects of inflation on the cost of care?
- If you were ever to become chronically or terminally ill, would you have to sell assets to cover any related care costs?
- Have you considered the impact a chronic or terminal illness could have on your succession plan (i.e., financial legacy)?

REALITY CHECK

The estimated average out-of-pocket medical costs for a 65-year-old retired couple in 2021 is **$300,000** … and even more if they become chronically ill.[6]

CONSIDER YOUR FINANCIAL AND EMOTIONAL WELL-BEING WHEN PREPARING FOR A POTENTIAL CHRONIC OR TERMINAL ILLNESS TO HELP PROTECT YOURSELF AND YOUR FAMILY.

A chronic or terminal illness can cost thousands of dollars each year. That can really take its toll if you haven't prepared for it. Not everyone will become chronically or terminally ill, but if you do, does your current strategy provide you with the additional income you may need to protect yourself and your family?

Adding a chronic illness rider to your life insurance policy can help you prepare for the financial impact of chronic or terminal illness, so the emotional one is a little easier. Note that the chronic illness rider benefits generally are paid directly to the policyowner and can be used in any way he or she chooses.

[6] *How to plan for rising health care costs,* Fidelity, https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs 08/31/2021, Accessed February 2022.

LIFE INSURANCE

Prudential offers a variety of life insurance products and riders that can effectively help to protect or enhance your legacy.

TALK TO YOUR FINANCIAL PROFESSIONAL.

If you want to leave legacy assets to your loved ones or a favorite charity, here are some questions to discuss with your financial professional to help determine whether this strategy is right for you.

QUESTIONS TO CONSIDER

- Would you like to leave a financial legacy to your children, grandchildren, or favorite charity?
- What is your monthly income need?
- What are you using to meet this need?
- If you die, will your spouse have sufficient replacement income?
- If you outlive your spouse, will you have sufficient replacement income?
- If you're currently taking, or planning to take, required minimum distributions from an IRA, do you need the after-tax cash for your lifestyle needs today or possibly in the future?

If not:

– Do you see yourself ever needing it?

– What do you plan to do with these assets and/or income?

If you plan to leave these assets to your loved ones or a favorite charity:

– Have you considered the effects of inflation?

– Have you considered the effects of market volatility?

– Have you considered the impact of income taxes?

– If you could potentially leave them more, would you want to learn how?

Important Considerations

BEFORE IMPLEMENTING THE LEGACY ADVANTAGE STRATEGY

- Any investment purchased during retirement involves the planning and use of your income or other assets. You should be certain to have sufficient liquid assets, other than the asset or income you may be repositioning, to support your current and future income and expenses before considering the purchase of a life insurance policy. Equity in the home should not be considered a liquid asset.
- You should consider developing a comprehensive financial strategy to take into account current and future income and expenses in conjunction with implementing the strategy discussed here.
- We recommend that you consult your tax and legal advisors to discuss your situation before implementing the strategy discussed here.

ABOUT LEGACY ADVANTAGE

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IF YOUR FINANCIAL OR LEGACY PLANNING SITUATION CHANGES

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WHEN LEGACY ADVANTAGE MAY NOT BE IN YOUR BEST INTEREST

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- If premiums and/or performance are insufficient over time, the policy could lapse, which would require additional out-of-pocket premiums to keep it in force.

A FINANCIAL LEADER FOR OVER 145 YEARS

Prudential Financial is a worldwide financial leader with a long tradition of serving the public interest. Prudential Financial has approximately 50 million customers. The well-known Rock symbol is an icon of strength, stability, expertise, and innovation that has stood the test of time.

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EQUITABLE

Annuity maximization

Advanced Markets

Increasing wealth transfer using deferred annuity distributions

Meet Sandra

- **Age 65**
- **Nearing retirement**
- **Three grown children**

Sandra has a deferred nonqualified annuity value of $700,000 and an initial annuity deposit of $600,000. She has sufficient income from her pension, Social Security and other investments, doesn't need her annuity for retirement income and plans to transfer her annuity to her children after her death.

Do you have clients like this?

- Ages 60-85
- Own deferred annuities, but they are not needed for retirement goals
- In a high income tax bracket with a desire to pass maximum wealth to beneficiaries
- Have a desire to provide beneficiaries with wealth replacement to cover annuity assets lost to estate and income taxes

The problem:

Double taxation in the form of estate and income taxes will significantly reduce the value of the annuity passed on to Sandra's beneficiaries. The forecasted value of Sandra's annuity after her death at life expectancy at age 88 is $2,673,825,[1] based on an assumed rate of return of 6%.[2] There is the potential of the IRS taking 56% of this value, based on projected estate and income tax rates. This would result in $1,505,033 owed to the IRS.[3]

1 Based on the 2017 CSO Table.

2 This rate is assumed to be after-tax and is no guarantee of future growth. When using this strategy, clients should expect fluctuations in return that may affect the amount available for withdrawal. There is no guarantee that the variable annuity will provide the necessary premium to fund the life insurance policy. This example ensures the withdrawals from the annuity are all growth, which is income taxable; any return of premium withdrawn from a nonqualified annuity is not taxable.

3 The policy premium and death benefit amounts used for this case are intended only to help demonstrate the planning concept discussed and not to promote the sale of a specific product. The rates are broadly representative of rates that would apply for a policy of this type and size for insureds of good health in the ages mentioned. To determine how this approach would work with your clients, individual illustrations should be prepared or requested for your review. If different rates were used, there might be significantly different results.

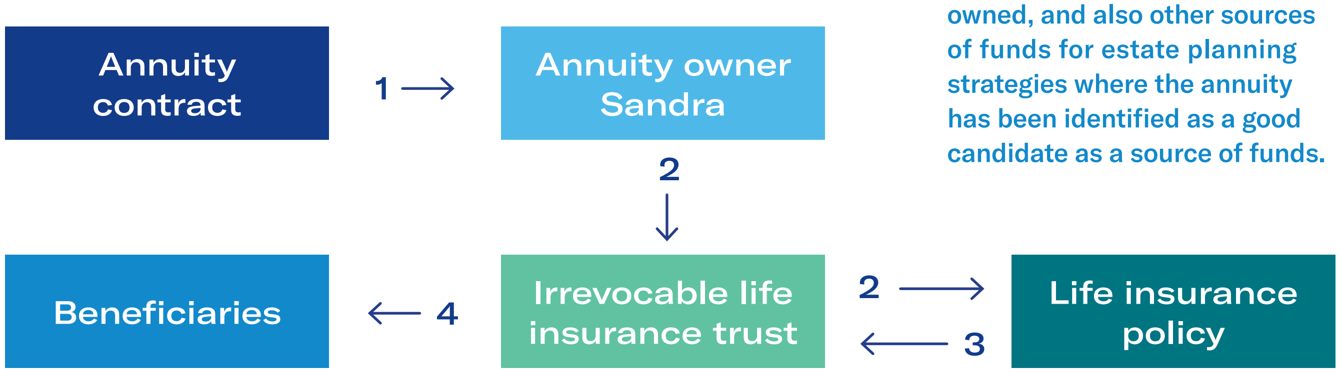
A potential strategy

Reposition Sandra's deferred annuity asset and purchase life insurance.

Here's how it works:

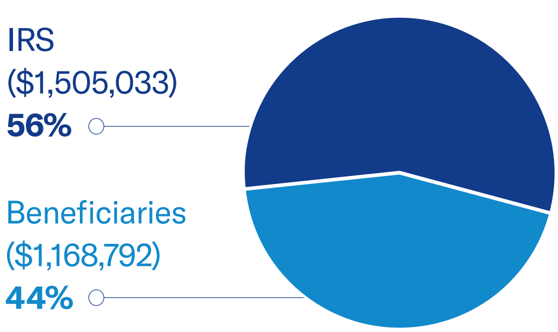
- Sandra takes an annuity withdrawal of $53,674 ($34,888 after tax, assuming a 35% tax bracket) for 23 years.[2]
- After-tax annuity withdrawals are gifted to a beneficiary or the irrevocable life insurance trust (ILIT). The ILIT purchases a life insurance policy with initial face amount of $1,800,000.
- After death, the death benefit is paid to the ILIT and, structured properly, will be income tax-free and not included in Sandra's taxable estate.
- The ILIT assets then pass to the beneficiaries per trust provisions. Any unused annuity balance passes to designated beneficiaries. These assets are included in Sandra's taxable estate, and any growth is subject to income taxation when distributed to her beneficiaries.

The client has considered any guaranteed benefit features or guaranteed life annuity options under any annuity contract owned, and also other sources of funds for estate planning strategies where the annuity has been identified as a good candidate as a source of funds.

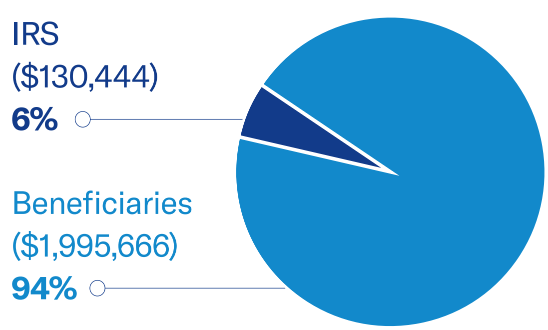


By using the annuity maximization strategy, Sandra is able to use an unneeded double tax asset to pay for a life insurance policy that helps her transfer wealth untouched by taxes. In doing so, she would be able to transfer an additional $826,874 to her children if she were to pass away at her life expectancy of age 88.[3]

Current plan at death



Proposed plan at death



For more information, please call the Life Insurance Sales Desk or visit equitableLIFT.com.

Existing annuity provisions should be reviewed prior to taking a withdrawal. Annuities are long-term investments designed for retirement.

Withdrawals will reduce the death benefit and any optional benefits. Values are based on the assumptions previously stated and are not guarantees or indications of future performance. The existing annuity values assume no contract fees or surrender charges.

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EQUITABLE

How life insurance can assist clients in meeting their future needs

Social Security planning

Sales Guide

Life Insurance: • Is Not a Deposit of Any Bank • Is Not FDIC Insured • Is Not Insured by Any Federal Government Agency
• Is Not Guaranteed by Any Bank or Savings Association • Variable Life Insurance May Go Down in Value

Introduction

A few words about Social Security and where Social Security planning fits into a client's overall planning.

For most Americans, income during their retirement years will be addressed by three asset groups:

1 **Retirement plan assets** (company-provided pensions, IRAs and 401(k) plans)

2 **Social Security benefits**

3 **Personal assets**

While important, the first two may not be able to replace personal savings. Company-provided pension assets have diminished in importance for many retirees.

Twenty-two percent of American workers in the private sector (i.e., non-government jobs) were covered by an employer-sponsored pension plan in 2018.[1]

Concerns also exist regarding the viability of the Social Security program:

- **According to many studies, the Social Security trust fund will be able to cover its retirement and disability obligations for the next 17 years or so, after which there will be a shortfall of about 24%.[2]**
- **The chief actuary of the Social Security Administration estimates Social Security funds will fall short after 2037.**

Sections of this guide will talk about how clients might be able to use life insurance, and the protection it offers families, as a way to help supplement these two items as part of a personal asset accumulation approach.

1 Bureau of Labor Statistics' National Compensation Survey for 2018.

2 www.ssa.gov

Social Security *may* and *can* be an integral part of your client's planning. While it may not be central, it remains a cornerstone of many retirement plans. In some cases, it can be used by a client as part of a wealth transfer strategy. An assessment of your clients' needs and a comparison with available resources can help identify any shortfalls that may exist. The earlier the process begins, the more viable the opportunity to arrange their personal estate and reallocate assets to help address future needs.

Sadly, however, recent surveys indicate that less than 30% of all Americans don't have an idea of what they may be entitled to receive from Social Security. They may have no idea of the significance that Social Security may still play in their retirement and estate plans. If they wait too long, it may be too late to maximize the role Social Security might play in their retirement.

The Social Security Administration website offers substantial general benefit information, as well as personal planning tools to access an individual's own benefit profile and benefit projections.[2] Consider the following three situations where life insurance may provide assistance to your clients in conjunction with your review of their Social Security benefits and retirement and estate planning goals.

This guide will show three ways to look at a client's overall planning and offer three strategies that can help enhance, supplement or use Social Security to achieve their retirement or wealth transfer goals:

1. For many clients, Social Security will represent a major portion of their retirement resources and they may benefit from strategies to maximize what they are entitled to receive, perhaps by delaying the receipt of their benefits (next page).
2. Some clients will need to plan for personal assets to fill the retirement income gap that will exist between their needs and what Social Security and retirement plan assets will provide (page 5).
3. Other clients will not need Social Security for their retirement needs, but it may be helpful in addressing their legacy plans (page 7).

Let's explore three strategies that could work for your clients:

Strategy one: The Social Security "bridge"

Strategy two: The supplement

Strategy three: The legacy

Strategy one: The Social Security "bridge"

Do you have clients who would like to get the maximum benefit amount their Social Security profile can provide? This approach will show how life insurance can be integrated into an overall protection plan, and allow a client to maximize their overall Social Security benefits.

An important part of any financial plan is planning for retirement. Setting aside money in various retirement accounts will help achieve retirement goals. When assessing retirement need, one income source that you'll need to consider is the amount of Social Security benefits that will be available, based on an individual's personal profile and projected retirement age or date.

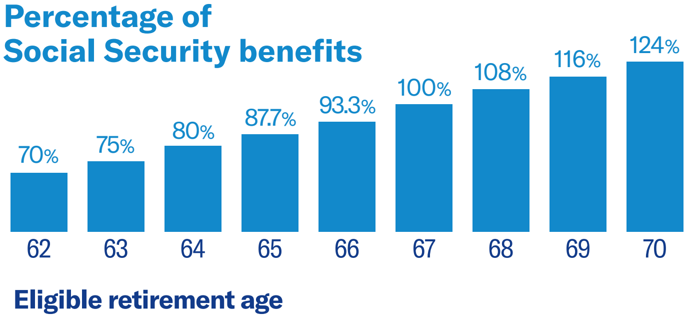
For most future recipients, "normal" Social Security full retirement age will be between 66 and 67. However, clients can access these funds as soon as they reach age 62. Conversely, they can defer receipt of Social Security benefits until age 70. Accelerating benefits, taking them prior to their full retirement age, will result in reduced benefits. Delaying receipt will result in enhanced benefits. Although timing and amounts will vary from client to client based on their birth year, on average it is about an 8% per year reduction or growth.

This can be a critical element in a client's planning. At its heart, Social Security is a fixed annuity. For clients who can defer receipt of their Social Security benefits during the deferral period, starting at age 67, they will compound growth year after year at about 8% per year. Few financial alternatives offer 8% growth.

Retiring early can mean a 30% reduction in Social Security benefits.

Retiring later, however, can increase your benefits 8% a year.

Percentage of Social Security benefits



Meet Chris and Linda

- **Both age 45**
- **Two children**

This strategy may be right for clients who:

- Want to maximize their Social Security benefits.
- Can delay Social Security benefits until age 70 to get increased monthly benefits.
- Want to retire earlier than Social Security full retirement age.
- Clients who have a need for life insurance.
- Wish to leave a legacy to their children.

Chris and Linda's situation

Chris and Linda recently met with their financial professional. They are married, both 45 years old, with two children, and want to retire early. Based on today's Social Security benefits schedule, Chris would qualify for the maximum Social Security benefit if he retired at the full retirement age of 67. However, he wants to retire at age 62, a point where Social Security benefits would be substantially reduced. Chris is looking for a strategy that would allow him to have access to an amount that is equal to what he would receive from Social Security at full retirement age 67, yet allow him to retire at 62 and delay triggering his actual Social Security benefit until age 70.

A cash value life insurance policy may be an excellent way to help provide for additional funds to help "bridge" the Social Security gap.

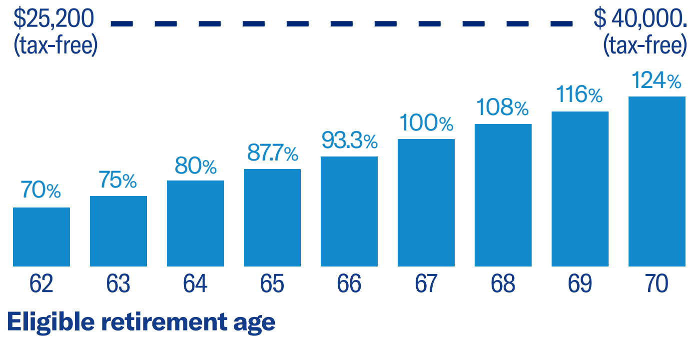
By tapping into the policy cash values in strategic years, between age 62 to age 70 (just 8 years), clients can obtain the equivalent value of their Social Security benefit. They can let their Social Security benefit grow and take their maximum benefit at age 70. All along, their family has death benefit protection and later, a possible legacy.

Chris and Linda's strategy

- It is projected that Chris will be eligible for a Social Security benefit of $32,000 per year at his full retirement age of 67, and eligible for a $40,000 annual benefit if he delays until age 70.
- Chris and Linda need to purchase a $500,000 life insurance policy to protect their family if something happened to Chris. A cash value life insurance policy on Chris' life meets both personal protection needs, and helps to fund a "supplemental income stream" at Chris' age of 62.
- They will pay policy premiums for 16 years from Chris' age 45 through his age 62. (Annual premium of $9,500 for 16 years).
- At age 62, and until he reaches 69, Chris will plan to take $25,200 annually in funds from the life insurance values, an amount equal to the "after-tax" amount of $32,000 that he could receive from Social Security at age 67, "normal retirement age," in a 25% tax bracket.
- At age 70, Chris can trigger his delayed Social Security benefit of $40,000.
- Chris and Linda can leave a legacy to their two children with the remaining policy death benefit.
- Along the way, Chris can always change his mind and work longer, and they will still have cash value in their policy to enhance their retirement beyond age 70.

Using life insurance, Chris and Linda are able to retire when they want, and still delay Social Security benefits in order to get the maximum amount available to them.

Cash value life insurance can fill the Social Security gap[4]



A variable universal life insurance contract such as VUL Optimizer® is a contract with the primary purpose of providing a death benefit. It is also a long-term financial investment that can also allow potential accumulation of assets through customized, professionally managed investment portfolios. These portfolios are closely managed in order to satisfy stated investment objectives. There are fees and charges associated with variable life insurance contracts, including mortality and risk charges, administrative fees, investment management fees, front-end load, surrender charges and charges for optional riders. There is investment risk with a variable life insurance policy, including the loss of principal invested.

Age	After-tax Social Security equivalent from policy	Cash value[3]	Life insurance benefit	Delayed social security benefit at age 70
62	$25,200	$206,812	$474,800	$0
65	$25,200	$163,912	$399,200	$0
69	$25,200	$89,906	$297,285	$0
70	$0	$94,553	$296,524	$40,000

Why it works

- Life insurance is not always just about estate planning and taxes. It can be an effective tool to help provide supplemental retirement income in addition to leaving a legacy to beneficiaries.
- Chris will be able to defer taking his Social Security benefit to become eligible to receive a higher benefit amount at age 70. By taking his full retirement age Social Security benefit equivalent from the life insurance policy at his early retirement age of 62, life insurance helps "bridge" the gap between an early retirement and an increased Social Security benefit.
- All along, Chris retains the choice to change his retirement date and still have cash value life insurance protection.

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4 Calculation: Benefit of $32,000 per year; 85% taxed at 25% income tax rate ($27,200 x 25% = $6,800 tax); $32,000 - $6,800 = $25,200 after-tax amount of projected benefit at FRA.

Strategy two: Supplementing retirement income

Do you have clients whose projected Social Security benefits and “traditional retirement assets” may fail to meet their retirement income needs? This approach will show how life insurance can be integrated into an overall retirement planning strategy and allow a client to coordinate their Social Security benefits, traditional retirement benefits and personal savings with their life insurance protection.

Retirement protection is often a central goal for most clients. They have worked for many years and want to feel confident that they have accumulated enough wealth to maintain their standard of living in their non-working years. How much is enough? People are living longer than in previous generations. It used to be that 70% of your salary at retirement was a good rule of thumb to gauge how much people should save. But for many this number is no longer a valid indicator. In the early years of retirement, your clients might lead a much more active life with travel, visiting grandchildren, hobbies and other activities. Whereas in the later years, they might be less active, but the cost of living could have increased. Also consider that in the working years there may be a need for a source of emergency funds.

Given current health trends and an increasing dependence on personal savings, clients need to properly prepare for retirement. Consider the economic downturn. Millions of Americans either lost their jobs, their nest eggs or both! Assets that were set aside for retirement, such as real estate or securities, were quickly reduced to a fraction of their previous value and in some cases had to be liquidated all together. Yet the need for future retirement income remains. In addition, inflation rates have been slowly rising. Would a 3% average annual inflation rate jeopardize the value of your client’s current retirement portfolio?

Meet Gary and Darlene

- **Both age 45**
- **Two children looking at colleges**

This strategy may be right for clients who:

- Are 10 or more years away from retirement.
- Have projected Social Security and “traditional retirement assets” that won’t meet their retirement needs.
- Are looking for retirement planning strategies.
- Are healthy and have a life insurance need.
- Would like to leave a financial legacy.

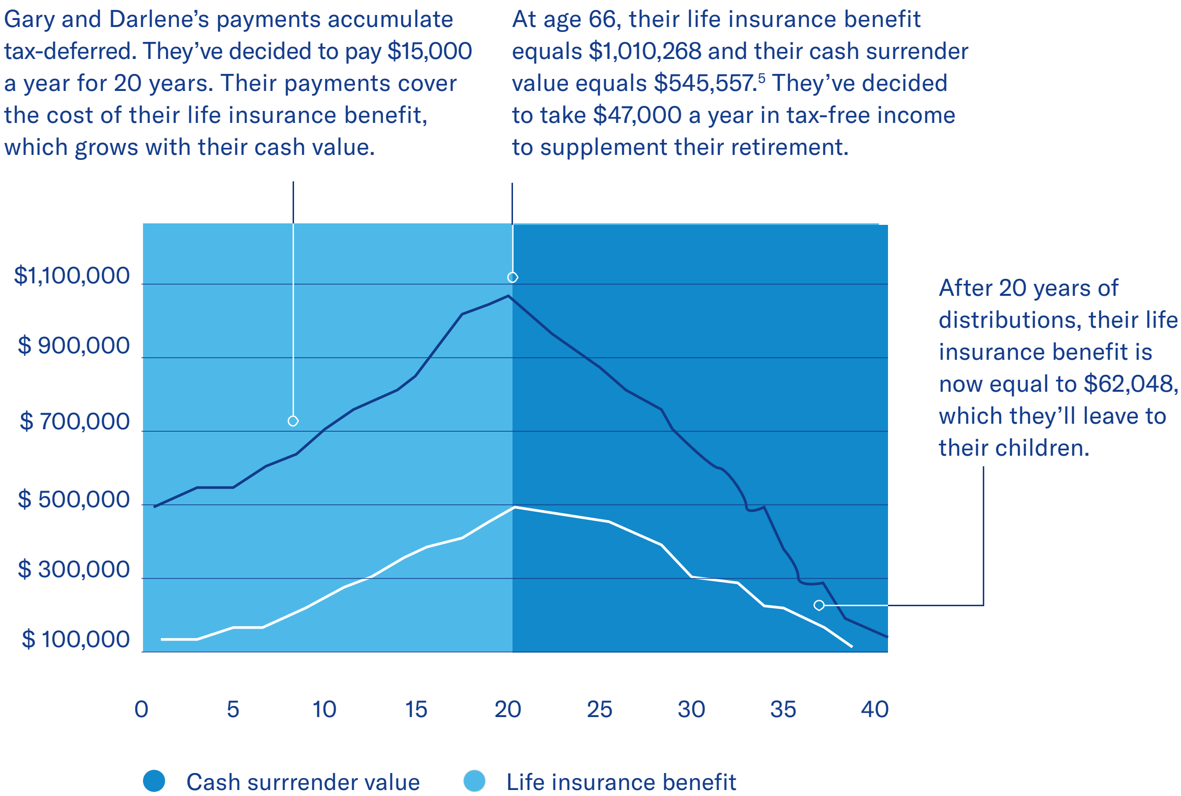
Gary and Darlene’s situation

Gary and Darlene are married and both age 45. They have two high school-aged daughters who are looking at colleges. Although they have been contributing to their employers’ 401(k) plans, their financial professional has made them aware of the limitations on funding these plans. They also know that Social Security provides only a limited supplemental benefit. So, they are looking for other ways to save in a way that is tax-efficient.

Why life insurance?

Life insurance cash values may help with many of these planning issues. A life insurance policy that builds cash value can accomplish two goals. First, it can provide essential life insurance coverage for the family. Second, it can be another source of supplemental income for the client and their spouse in retirement. Life insurance can build value, tax-deferred. What’s more, when your client is ready to access their cash value, they can do it potentially tax-free.

Under current federal tax rules, clients generally may take federal income tax-free withdrawals up to their basis (total premiums paid) in the policy or loans from a life insurance policy that is not a Modified Endowment Contract (MEC). Certain exceptions may apply for partial withdrawals during the policy’s first 15 years. If the policy is a MEC, all distributions (withdrawals or loans) are taxed as ordinary income to the extent of gain in the policy, and may also be subject to an additional 10% premature distribution penalty prior to age 59½, unless certain exceptions are applicable. Loans and partial withdrawals will decrease the death benefit and cash value of their life insurance policy, and may be subject to policy limitations and income tax. In addition, loans and partial withdrawals may cause certain policy benefits or riders to become unavailable and may increase the chance the policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values.



Gary and Darlene's strategy

- Their financial professional has suggested that Gary and Darlene consider a variable universal life policy.
- If the insured were to die, the policy would provide an immediate source of cash for the girls' current and future financial needs.
- While they're alive, the policy cash value could continue to grow over time to create a source of supplemental income for their retirement years.
- Assuming they pay policy premiums of $15,000 a year for 20 years, at a 7.5% gross rate of return (which is not a guaranteed rate), their life insurance policy could provide approximately $47,000 for 20 years, beginning when they're age 66. (In a 35% income tax bracket, $47,000 after-tax would equate to approximately $72,308 of before-tax income.)

Why it works

- Cash value life insurance, single life or survivorship life insurance policies, can provide a cost-efficient means to accumulate assets.
- During the time prior to their retirement years, there is a life insurance benefit of $500,000-$1,000,000 to provide financial protection for their daughters.
- When they need retirement income, the policy cash values can be accessed via loans or withdrawals, as a source of supplemental income. Policy loans and withdrawals will reduce the face amount and cash value of the policy. Clients may need to fund higher premiums in later years to keep the policy from lapsing.

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Strategy three:
Legacy wealth transfer with Social Security max

Do you have clients with substantial wealth who will not need or rely on Social Security for their own financial needs? They may be able to use life insurance to leverage this personal benefit amount and enhance the legacy they leave for their children, grandchildren or favorite charities.

Most clients will use their Social Security benefits to support their retirement income needs. However, some clients may have been fortunate enough to amass a comfortable retirement nest egg. Perhaps they've not even considered their Social Security benefits as a source of income when they are retired. If these benefits are "excess," the after-tax funds will merely be added to the client's portfolio. As a result they may be subject to taxes on investment growth and, possibly increase their estate or other wealth transfer taxes. Legacy planning with life insurance can offer a more effective use of these excess benefits.

If your clients have children, grandchildren or charities that are important to them, some or all of their Social Security benefits could instead be used toward a life insurance policy. This can be a very simple way to create a legacy for their family or charities.

Why it works

- Bill and Debbie did not need their Social Security benefit for living expenses.
- They only used a portion of the funds from Social Security for life insurance.
- They can still make annual gifts to family members or charities with the remaining benefit.
- They are able to leverage their legacy with use of a life insurance policy.

Meet Bill and Debbie

- **Both turning 66**
- **Estate worth: $5,000,000**

This strategy may be right for clients who are:

- Healthy and have a life insurance need or capacity for life insurance purchases.
- Age 62 or older.
- Qualified to receive Social Security, but do not need Social Security for retirement income.
- Would like to enhance or create a financial legacy.

Bill and Debbie's situation

Bill and Debbie are working with their financial professional on their retirement plans. They are both turning 66 at the end of this year. During their working years, they accumulated substantial assets and both have employer-provided pensions. They never considered Social Security as a necessary source of retirement funds. They're not even sure how much they are eligible to receive.

During their recent planning discussions with their financial professional, they uncovered that they are both eligible to receive the Social Security maximum benefit at their retirement's "normal retirement age" 66. After taxes, their financial professional estimated that together they will have a total of $64,000 in pretax benefits. This equates to approximately $40,000 in after-tax dollars available to them.

Bill and Debbie's strategy

- Bill and Debbie decide to use half of the after-tax amount available to them from Social Security, or $20,000, as premium for a life insurance policy on their lives, to provide a benefit for their four grandchildren.
- They can purchase a range of policies. Depending on each client's situation one approach may be better than the others.
  - A survivorship life policy.
  - A single life policy on either Bill or Debbie.
  - Two single life policies, one on Debbie's life and one on Bill's life.
  - They elected to purchase an indexed universal life policy on Debbie's life (see diagram below).
  - They can own the policy outright, or it can also be owned by a trust, their children or a charity. At Debbie's death, the policy can complete their family legacy or may be maintained until Bill's death if he is still alive.

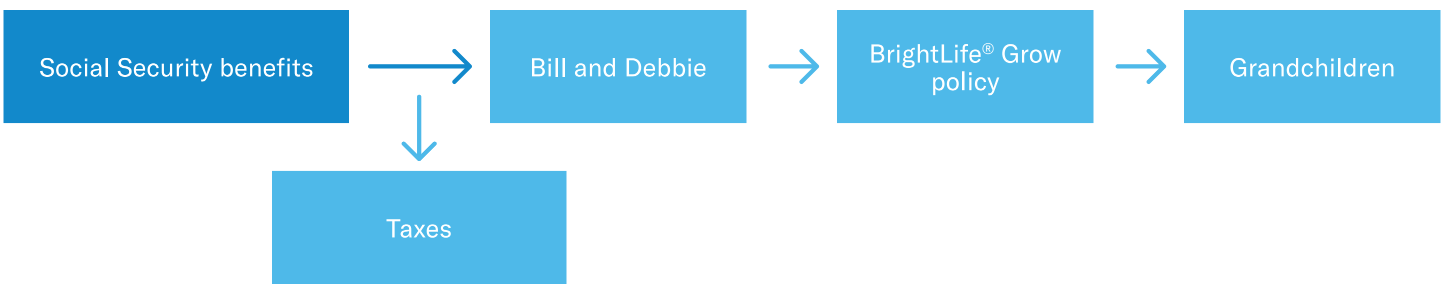
A comparison

Here is comparison of their legacy showing the advantage of placing $20,000 in a life insurance policy insuring Debbie's life.

Approach	Annual contribution	Over 20** years
Gift	$20,000	$400,000
Invest*	$20,000	$554,764*
Insure[6]	$20,000	$700,000**

* Projected return is 5% before tax, 3.02% after tax.

** Assume Social Security amounts contributed to life insurance in all years.



Other considerations

Please remember cash value life insurance has many other considerations clients should review carefully before selecting a life insurance policy. Please keep these important points in mind:

- Clients must keep paying the required premiums for the entire premium payment period, missing or skipping premiums will negatively impact the amount of loans and withdrawals available. A life insurance policy like Equitable's BrightLife® Grow generally takes years to build up a substantial cash value. To be effective, the policy should be held until death.
- This idea is based on a hypothetical scenario according to certain rates and charges in the policy. The rates and charges are not guaranteed, and thus the actual results your client receive will be different.
- Clients must qualify both medically and financially for the life insurance.
- How much life insurance your client can purchase and the price they pay will depend on the medical and financial underwriting.
- Generally, there are additional charges associated with a BrightLife® Grow policy, including, but not limited to, a front-end load, monthly administrative charge, monthly segment charge, cost of insurance charge, additional benefit rider costs and a 15-year surrender charge.

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Closing comments

Social Security is an important consideration for most of your clients as they plan for their ultimate retirement goals. However, its impact will vary widely for each client. Additionally, not all U.S. citizens are eligible to participate in the Social Security system.

Most eligible participants do not realize the scope of their own Social Security benefits. They are not aware that the maximum Social Security benefit in 2022 available at “full retirement” age is only $3,345 per month or $40,140. The majority of eligible Social Security recipients receive less than half that amount. Although important, Social Security, along with qualified pensions, will only address a portion of retirement needs for many of your clients. Personal assets, including life insurance, will be needed to address any shortfall.

Opening up a discussion with clients on retirement needs and Social Security long before their retirement years makes good sense. Life insurance, either single life or survivorship life, can be an invaluable planning tool for you to consider.

Appendix

Contents

As mentioned within this document, recent surveys indicate that many Americans have little idea of what they may be entitled to receive from Social Security. Those clients will have no idea of the significance that Social Security may play in their retirement and estate plans, or the gap that might exist. If they wait until it is too late, they will be unable to effectively address their ultimate retirement needs.

What follows is a "primer" of the major points to consider when addressing the impact of Social Security with your clients.

Qualifying for Social Security benefits

Not all workers qualify to receive Social Security benefits. Those who have been employed by the federal government or state governments may be covered by other retirement funding arrangements. This group generally includes teachers in the public school systems. As a general rule, American citizens and resident aliens who have contributed into the U.S. Social Security system during their working years can qualify for Social Security benefits. Workers who have "40 quarters" (10 years) of participation can qualify for some benefit amount on their own. Spouses and divorced spouses may also be eligible for benefits through their spouse or former spouses. Identifying your clients' occupation, work history, employer and marital history can be helpful in assessing their Social Security profile and eligibility for benefits.

Understanding the basics

During working years, both covered employees and their employers contribute to Social Security on their behalf. Currently, 6.2% of earned income, up to the annual "Social Security Contribution Base," is withdrawn from each paycheck along with state and federal income taxes. Employers and covered workers contribute a like dollar amount on behalf of the employee. Self-employed persons contribute to both the employer and employee portions, 12.4%.

If you work for someone else	Social Security tax
You pay	6.2%
Your employer pays	6.2%
If you are self-employed	
You pay	12.4%

Compensation subject to the Social Security withholding referred to as the "Social Security Contribution Base" is capped each year. For 2022, the compensation maximum was capped at $147,000.

Once a covered worker is credited with 40 quarters of contributions (essentially 10 years), eligibility for benefits is sealed. However, the ultimate benefit amount is based on an assimilation of 35 years of compensation. If a covered worker has contribution credits for 403 quarters or more, but less than 35 total covered years, values for the missing years will be filled in with zeros for the final benefit calculations.

Understanding the process

In working with Social Security, there are certain basic terms that someone needs to know in accessing and understanding Social Security retirement benefit amounts.

Full retirement age:

Full or normal retirement age (FRA) refers to the age at which the participant will be eligible to receive 100% of their Social Security benefit. The FRA varies based on the date of birth of the participant.

As an example, for a covered worker born between 1943 and 1954, age 66 is the FRA. If a covered worker was born after 1960, their FRA is age 67. For birth years between 1955 to 1960, the age at which full retirement benefits are payable increases gradually to age 67. The following chart provides full retirement for given ages, and demonstrates the phase for those gap years. As you can see, a covered worker becoming age 66 this year is entitled to receive 100% of their "primary insurance amount."

Year of birth	Full retirement age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

Primary Insurance Amount (PIA):

The "primary insurance amount" (PIA) is the benefit a covered worker would receive if they elect to begin receiving retirement benefits at their "full retirement age," FRA. If benefits begin at the FRA, the benefit amount is neither reduced for early retirement nor increased for delayed retirement. A special calculation formula is applied to the income levels that a covered worker was taxed on during their working years. The formula indexes the income amounts for inflation to arrive at the PIA. In 2022, the maximum PIA amount is $3,345 per month or $40,140 per year.

Early entry:

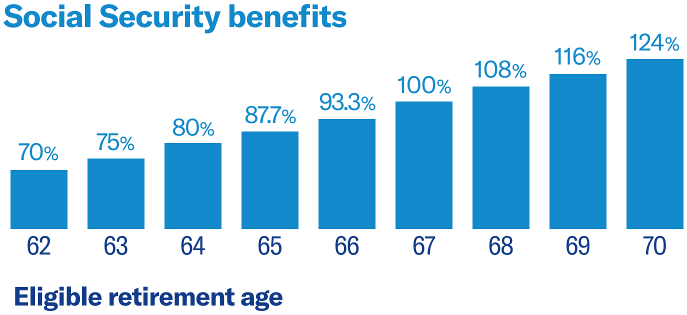
If a covered worker applies for Social Security benefits before their FRA, their benefit will be less than 100% of the amount available at their FRA. A covered employee's benefit is reduced by about half a percent for each month they start to receive their Social Security benefit before their FRA. For example, if a covered employee's full retirement age is 66, and they sign up for Social Security when they are 62, they would only get 75% of their primary insurance amount.

Additionally, it is important to note that if a covered employee starts receiving benefits prior to their FRA and they continue to work, not only are their benefits reduced for early entry into the system, their benefit may also be reduced $1 for each $2 earned until they reach their FRA, if their earned income exceeds an earnings threshold. In 2022, that earnings threshold is $19,560.

Deferred entry:

In contrast to early entry, if a covered employee defers receipt of their benefit to a year after FRA, up to age 70, their benefit will be increased by 8% of their PIA at their FRA for each year deferred. How much it will differ depends on the number of gap years. As an example, if normal retirement age is 67, applying for a benefit at age 62 results in a reduction of benefit amount by 30%. In contrast, delaying receipt of a benefit until age 70 will increase the benefit to 124% of the primary insurance amount.

Percentage of Social Security benefits



Divorced spouses

Divorced spouses may also have rights to a "spousal benefit" through any of their former spouses, where the divorced spouse:

- Had been married for 10 years.
- Is unmarried at the time of filing for benefits.
- Is age 62 or older.
- Has been divorced from the eligible participant for 2 or more years.
- Has an ex-spouse who is entitled to Social Security retirement benefits.
- The benefit they are entitled to receive based on their own earnings record is less than the benefit they would receive based on their ex-spouse's benefit base referred to as the Primary Insurance Amount (PIA).

When you are working with divorced clients who fit the profile listed above, these rules can be important to you as part of the overall retirement plan.

Impact of earned income on Social Security benefits

Earned income will not have a direct impact on the Social Security benefit amount of an eligible recipient who continues to work after their FRA. However, if someone has earned income and elects to begin their Social Security retirement benefit prior to their FRA, their benefits may be subject to an additional reduction until they do reach their FRA.

As an example, for someone born between January 2, 1943, through January 1, 1955, their FRA for Social Security retirement benefits is age 66. Someone who reaches normal retirement age or older, may collect 100% of their Social Security benefit amount, no matter how much they earn. However, for those triggering a benefit prior to normal retirement age who have not yet reached their FRA, there is a limit to how much they can earn and still currently receive full Social Security benefits. During 2022, those who:

- Are receiving Social Security retirement benefits.
- Have not yet reached their FRA.
- Have earned income in excess of $19,560.

Their annual benefit will be reduced $1 for each $2 they earn above the $19,560 threshold (2022). If they reach FRA during 2022, the reduction changes to a $1 reduction for every $3 earned in excess of $50,520 (or $4,210 per month). For the year following their FRA, the reduction no longer applies at all.

Income taxation of Social Security benefits

Some recipients of Social Security retirement benefits will have to pay federal income taxes on their Social Security benefits themselves. This will occur if they have other substantial income (such as wages, self-employment, interest, dividends and other taxable income that must be reported on your tax return) in addition to their Social Security benefits. Note: Life insurance accumulations can be accessed through withdrawals and loans, and when properly structured, will not trigger current income taxes.

It should be noted that earned income delays the receipt of some benefit amounts. But once the participant reaches FRA, the administration will recalculate their benefit amounts and give them credit for the benefit amounts withheld.

If a Social Security recipient:

Files a federal tax return as an "individual" and their "combined income" is:

- Between $25,000 and $34,000, they may have to pay income tax on up to 50% of their benefit amount.
- More than $34,000, up to 85% of their benefits may be taxable.

Files a joint return, and they and their spouse have a "combined income" that is:

- Between $32,000 and $44,000, they may have to pay income tax on up to 50% of your benefits
- More than $44,000, up to 85% of their benefits may be income-taxable.

No one pays federal income tax on more than 85% of his or her Social Security benefits based on Internal Revenue Service (IRS) rules. Consider the following sample cases.

Case studies

Case study 1: Benefit timing

Can be affected by a client's age, income from unrelated sources.

a. Eligible participant profile

- Mark is 60 and reviewing his Social Security options with his financial advisor.
- He is married and currently, he and his spouse are both working.
- His FRA is 66.
- His PIA at NRA is projected to be $2,500 per month, $30,000 per year.

b. Timing

If he starts benefits at age 62, his benefit will be reduced below the PIA amount by 25%, to $22,500 per year. If he defers until age 70, his benefit will increase by 32% of the PIA, to $39,600 per year.

c. Taxation

Mark's Social Security benefits may be subject to income tax if they exceed the stated income thresholds.

For an eligible participant who is married filing a joint return and the couple has a combined income that is:

- Between $32,000 and $44,000 of income, they will have to pay income tax on up to 50% of their benefits
- More than $44,000, up to 85% of their benefits may be taxable.

Mark plans to continue to work after his FRA. The couple's "combined income" is expected to be $100,000, which exceeds the higher $44,000 threshold. At this income level, $25,500 of Mark's $30,000 annual benefit would be subject to income tax. That is 85% of the $30,000 because of his income level. Assuming a 25% marginal income tax bracket, Mark's after-tax benefit is reduced from $30,000 to $23,625.

d. Earned income reduction for benefits received prior to FRA

What if Mark triggers his Social Security benefits at age 62, prior to his FRA and continues to work? His PIA amount is $30,000 at age 66.

- At age 62, his benefit would be reduced to $22,500.
- Since 62 is less than his FRA, all earned income in excess of the annual threshold, will be reduced $1 for every $2 earned. The income threshold in 2022 is $19,560. In Mark's case we will assume earned income of $50,000. His Social Security benefit received at age 62 would be reduced by $15,220 ($50,000 - $19,560 = $30,440; $30,440/2 = $15,220) leaving him with only $7,280 for the year or $607 per month before tax ($22,500 - $15,220 = $7,280).

It becomes obvious that taking an early benefit while still working will not increase Mark's cash flow significantly and may not make sense.

Case study 2: A spouse's view

It is not uncommon to find spouses who did not work outside of the home or did not have the required 40 quarters of covered earnings.

A spouse of an eligible recipient can receive up to 50% of the primary worker's income benefit. This is in addition to the benefit received by the eligible recipient themselves.

In many cases, a spouse is fully insured under Social Security, but they are entitled to the larger of their own benefit or 50% of a spouse's benefit.

Let's look at Bob and Sally:

a. Eligible participant profile

Bob and Sally are the same age and they have reached their normal retirement age.

- Bob's PIA is $2,200.
- Sally's benefit based on her own work and earnings history is $700.
- Sally's spousal benefit is $1,100, or 50% of Bob's, so she will be eligible to receive $1,100, the spousal benefit, instead of $700.
- So, under these facts, Bob will receive $2,200 each month and Sally an additional $1,100 in Social Security benefits. In addition, if Bob were to die, Sally would receive Bob's higher benefit amount of $2,200.

b. Where a spouse's own benefit is larger

Assume that Sally was actually entitled to $1,400 based on her own work history. Since $1,400 is greater than half of Bob's benefit of $1,100 she can be qualified to receive the $1,400 monthly benefit. In addition, if Bob were to die prior to Sally, she would still be eligible to receive Bob's higher benefit amount of $2,200 instead of her own benefit of $1,400.

Case study 3: A divorcee's view

Divorced spouses may also have rights to a "spousal benefit" through any of their former spouses. Mary is 66 and has reached her FRA. She has been married twice. Her second husband Jim died last year. She was married to her first husband, Bill, for 12 years.

- Mary's PIA would be $1,100.
- Jim's PIA would be $1,200.
- Bill is 66 but has not filed for Social Security. His PIA amount would be $2,663.

Mary meets the criteria for a divorced spouse to benefit from their ex-spouse's Social Security account:

- She was married for more than 10 years to Bill.
- Divorced from Bill more than 2 years ago.
- She is currently unmarried.
- Age 62 or older.
- Her ex-spouse, Bill, is entitled to Social Security retirement.
- The benefit she is entitled to receive based on her own work is less than the benefit they would receive based on their ex-spouse's PIA.

Mary's Social Security benefit will either be $1,100, her PIA survivor benefit of $1,200 based on Jim's account or $1,331, the spousal benefit as an ex-spouse on Bill's account. She needs some guidance from her financial advisor on how to proceed in gathering the facts and applying for her Social Security benefit.

How to get started

Hopefully these brief facts and case examples were helpful to getting your thinking on track for your clients. The Social Security Administration website offers substantial general benefit information, as well as personal planning tools to access an individual's own benefit profile and benefit projections.[7]

To understand the Social Security benefits procedure, start with a review of your client's projected Social Security retirement benefits.

7 Please refer to: www.ssa.gov/myaccount

For more information, please call the Sales Desk or visit equitable.com.

EQUITABLE

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ADVANCED MARKETS CONCEPT

IRA Maximization Strategy

Maximizing IRA distributions to increase your legacy and control

Not a bank or credit union deposit, obligation or guarantee	May lose value
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LIM-1145

3/20

Preserving retirement assets for future generations

If you own a traditional or Roth IRA and won't be relying on it for retirement income needs—planning to pass those assets to your beneficiaries—then you may want to supplement your wealth transfer plan with an IRA maximization strategy using life insurance.

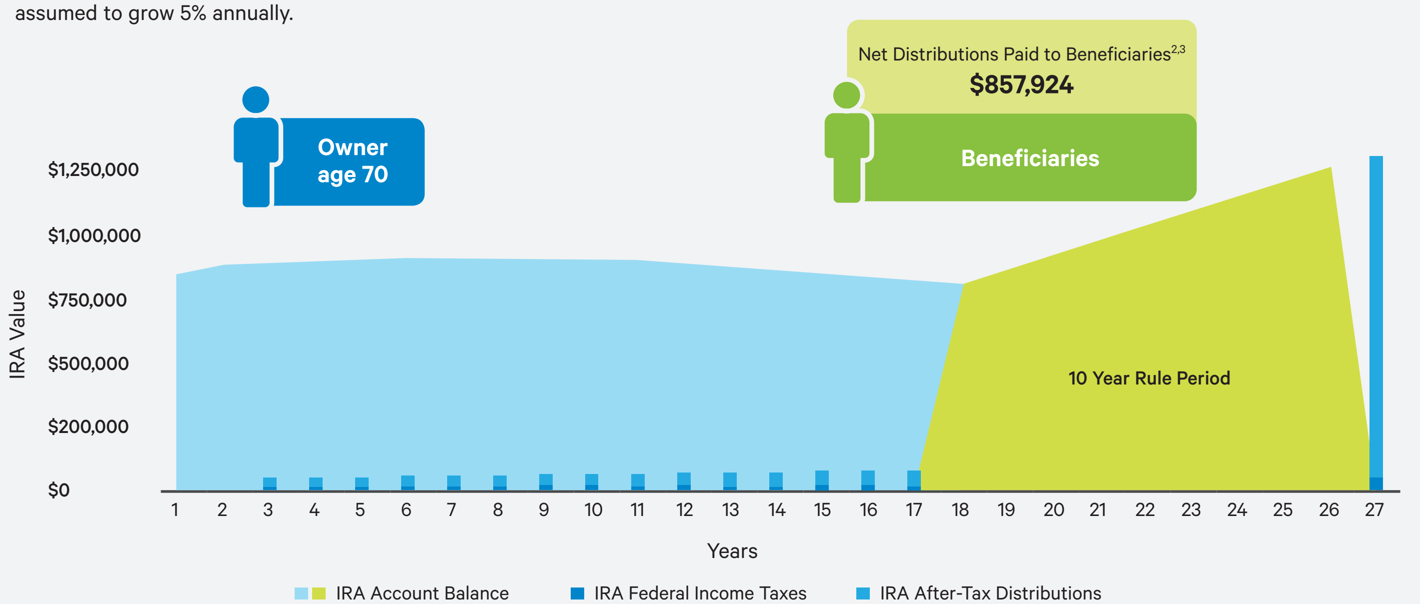
Leveraging the power of tax deferral

With an IRA, if inherited funds are kept in the IRA—with only the annual required minimum distributions (RMDs) taken by you—the amount of money that can be accumulated and paid to your beneficiaries can be significant. The graph below illustrates how a traditional IRA strategy might look.

Scenario 1

The Traditional IRA

In this scenario, we assume the IRA owner (age 70) begins RMDs[1] from the IRA at age 72 and that death occurs in the 17th year at age 86. Upon death, the beneficiaries begin to withdraw all of the remaining IRA assets in year 27 or 10th year from the IRA owner's death. The IRA balance is assumed to grow 5% annually.



[1] Required Minimum Distributions (RMDs) are calculated using life expectancies based on the IRS Uniform Lifetime Table and the recipient's age at the beginning of each year. In this scenario, the IRA owner starts distributions in year three, at age 72. The designated beneficiaries are not required to take distributions, but must distribute all of the the IRA assets by December 31st of the 10th anniversary of the original IRA owner's death. See Reg. 1.401(a)(9)-3 (refer to footnote 3).

[2] Net distributions equal total after-tax distributions to the beneficiaries in year 27 or 10 years after the IRA owner's death. This assumes no estate taxes are due based on the assumption that the estate's total value, including the IRA starts at $5 million and the non-IRA assets grow at average annual rate of 2%. The applicable federal estate tax exclusion amount (indexed for inflation) is $11.58 million per individual in 2020. The estate tax is unified with the federal gift tax and generation-skipping transfer such that in 2020 the lifetime gift tax exclusion and generation-skipping transfer tax is $11.58 million (indexed for inflation) and the maximum tax rate for both of these taxes will be 40%. The estate and gift tax exemption are set to expire on 12/31/2025 and revert back to $5.6 million per person increased by inflation. (Source: "Frequently Asked Questions on Gift Taxes,"IRS, accessed January 2020: https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-gift-taxes). For current information and an assessment of your unique situation, please consult your tax professional.

[3] Scenario assumes the IRA owner has four beneficiaries, under IRA section 401(a)(9), unless the IRA is divided into separate accounts, the distributions are calculated based on a lump-sum distribution in year 27 or 10th year from the original IRA owner's death.

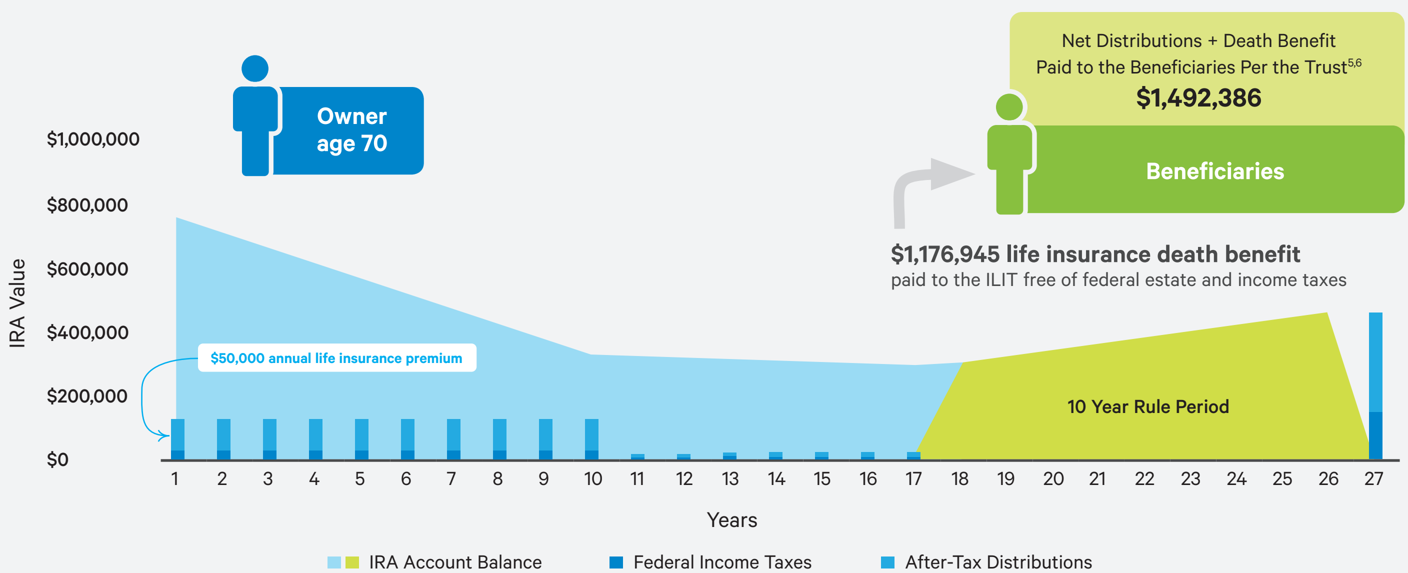
Get more from your IRA

An IRA can be a highly effective tool for increasing the wealth that passes to your beneficiaries. But with a life insurance policy held inside an irrevocable life insurance trust (ILIT), your IRA assets can work even harder for your beneficiaries. That's because the life insurance death benefit is paid to the ILIT free of federal income and estate taxes, thus "leveraging IRA distributions" by providing a more efficient and cost effective way to pass on wealth through your IRA.[4]

Scenario 2

The Leveraged IRA (Using IRA Distributions to Purchase Life Insurance)

In this scenario, we assume the IRA owner (age 70) begins taking distributions at age 70 and a portion of each distribution is used to gift annual life insurance premiums of $50,000 for 10 years. In years 11+, the distributions are equal to RMDs and assumes death occurs in year 17 at age 86. The beneficiaries are assumed to withdraw all of the remaining IRA assets in year 27 (10 years from the date of death).



In this scenario, the IRA owner starts distributions at age 70 in order to gift the annual life insurance premiums to the ILIT. The designated beneficiaries are not required to take distributions, but must distribute all of the IRA assets by December 31st of the 10th anniversary of the IRA owner's death. See Reg. 1.401(a)(9)-3 (refer to footnote 7). This assumes a federal income tax rate of 32% for both the IRA owner and the beneficiaries.

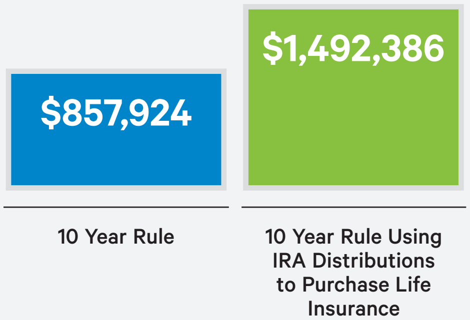
The life insurance premium and death benefit are based on Symetra Protector IUL for a 70-year-old female in the Preferred Non-Nicotine rate class. Illustrated at a 5% initial crediting rate, S&P 500® Index 1 year point-to-point Core Index strategy, current policy charges. Policy remains in-force to age 119 with a no-lapse guarantee benefit for 20 year or to age 89. Illustrated amounts are current as of January 2020, but are subject to change without notice. Please check current index cap and participation rate information.

[4] Life insurance proceeds are generally received income-tax-free, however, there may be exceptions. Symetra Life Insurance Company does not provide tax advice. Consult with your attorney or tax professional for more information.

[5] Net distributions equal total after-tax distributions to the beneficiary as a lump-sum distribution in year 27 or 10th year from IRA owner's death, plus the life insurance proceeds net of federal estate taxes, if applicable.

[6] Scenario assumes the IRA owner has four beneficiaries. The annual gift tax exclusion applies to gifts to each donee. In this scenario, we assume the owner has beneficiaries to whom he or she can gift up to $15,000 per year, per recipient. (Source: "Frequently Asked Questions on Gift Taxes,"IRS, accessed January 2020: https://www.irs.gov/businesses/small-businesses-self-employed/whats-new-estate-and-gift-tax).

Which legacy would you rather leave for beneficiaries?



74% more

In our scenarios, the ILIT and IRA beneficiaries received **$634,462** more with the leveraged distributions using your IRA strategy.

How could you benefit?

Using IRA distributions inside a life insurance trust may help:

Minimize taxes
Life insurance proceeds bypass probate and are paid to the ILIT free of both federal estate and income taxes.

Maximize and control your legacy
Using the net after-tax distributions from your IRA may allow you to purchase a significant life insurance death benefit for your beneficiaries.

Proceeds from an ILIT-owned life insurance policy will be distributed by the trustee to your beneficiaries according to your preferences.

Transfer assets out of your estate
Making tax-free gifts to an ILIT can help reduce the size of your taxable estate. Currently, individuals may gift up to $15,000 annually (per beneficiary) and married couples may gift $30,000 annually (per beneficiary). Plus, as long as you do not exceed the $15,000 limit, these annual gifts do not count against your $11.58 million combined cumulative lifetime gift- / estate tax exemption. (Refer to footnote 2 on page 2 for source information.)

Is an IRA maximization strategy right for you?

You may benefit if:

- ☐ You plan to leave IRA assets to your beneficiaries.
- ☐ Your retirement income needs are fully met by other sources without the need for RMDs.
- ☐ You want more control with ILIT distributions made to trust beneficiaries.
- ☐ You'd like to leave a larger legacy to your beneficiaries.

If these apply to you, contact your insurance professional to learn more.

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This is not a complete description of the Symetra Protector IUL policy. For a more complete description, please ask your insurance professional.

This material is not intended to provide investment, tax or legal advice. Consult your attorney or tax professional for more information.

Using IRA Distributions to Fund Life Insurance

It may be possible to transfer wealth to family and charitable beneficiaries using distributions from an IRA account to purchase life insurance.

Mar 18 2022 | 10 min read

People own different types of assets which have different tax attributes. Following your death, your IRA may be subject to both estate tax and income tax. It may be possible to transfer more wealth to your family and, perhaps, even charitable beneficiaries following your death by using distributions from your IRA account to purchase life insurance.

Over your lifetime, you probably have accumulated many assets. You may own a home, have an investment account, have a qualified retirement plan at work or a traditional individual retirement account (IRA).

> Each type of asset has different tax attributes and understanding those attributes and how they can impact a beneficiary's total after-tax inheritance is an important planning consideration.

This article focuses on the tax impact of inheriting a traditional IRA and provides examples of how incorporating life insurance into your plan could help increase the amount that you pass to your heirs.

Taxes Incurred When Dying with an IRA

Qualified plans and IRAs are great ways to save for retirement. However, those accounts may not be the most tax-efficient way to transfer wealth following your death.

- For income tax purposes, following your death, the assets in your retirement accounts are known as "income in respect of a decedent." The assets in those accounts do not receive a so-called "step-up" in basis to fair market value when you die, and when your beneficiary receives distributions from the account, the amount of the distributions will be included in your beneficiary's gross income and subject to ordinary income tax, not capital gains tax.
- Also, retirement accounts will be included in your gross estate for federal estate tax purposes. Generally, if the value of your taxable estate[1] exceeds your available exclusion from the federal estate tax, the value in excess of your available estate tax exclusion (consisting in part of your retirement accounts) will be subject to a federal estate tax.[2]

When planning for what your family will receive following your death, remember that any amount they receive from your retirement accounts will be reduced by income tax and possibly federal estate tax. To state it differently, unless you specifically plan to avoid it, following your death there are always at least two beneficiaries of your retirement account, the beneficiary(ies) that you name in your beneficiary designation and the U.S. government. As a result, you might want to consider ways to reduce the tax cost of transferring a retirement account at death.

Strategies to Reduce Tax

There is more than one way to reduce the tax cost associated with passing a retirement account at death.

- One way to reduce tax cost is to name one or more charitable organizations as beneficiaries of your retirement account. Charitable organizations qualified under IRC § 501(c)(3) generally do not pay income tax. When a charitable organization receives your retirement account, it will receive the full amount unreduced by income tax. Further, the value of your gross estate will receive a charitable deduction in the amount of the IRA account given to charity. However, leaving your retirement account entirely to a charitable organization directs that wealth (that is, what they would have received net of taxes) away from your family.
- Another way to alleviate the otherwise full tax cost of transferring a retirement account to your family following your death, while transferring comparable or greater wealth to them, is to replace a portion of the highly taxed retirement account with the death benefit from a life insurance policy insuring your life. Generally, unless certain exceptions apply, the death benefit from a life insurance policy is not subject to federal income tax,[3] and if the policy is owned by someone other than the insured (such as an irrevocable life insurance trust) and the insured has no incidents of ownership in the policy, the death benefit will also avoid federal estate tax.[4]

Combining both charitable giving and insurance strategies can sometimes transfer the greatest amount of wealth to your family and your charitable beneficiaries while providing the best tax result for your family.[5]

Some Tax and Non-tax Planning Considerations During Your Lifetime

Before illustrating how a tax mitigation strategy using life insurance could work, a word of caution is necessary. The strategy described herein uses funds distributed from your retirement plan to pay life insurance premiums. If you will need your entire IRA to maintain your lifestyle during retirement, then this strategy should not be used. If, on the other hand, the full value of your IRA accounts is not needed to support your lifestyle in retirement, then you might consider using this strategy to reduce taxes on property transferred to your family when you die.

> Also, remember that this strategy may not work when applied to your unique situation. The premium cost for a policy of life insurance is dependent upon many factors, including your age, your health and your family's health histories, and your lifestyle (such as whether you use tobacco).

Thus, the insurance company's review of the factors it considers during the underwriting process may make the cost of life insurance unacceptable to you. In fact, following underwriting, your risk factors may be such that you cannot purchase life insurance at all.

Remember, too, that withdrawals from an IRA during life are subject to income tax. If you undertake this strategy, be sure that you have a plan to pay the increased income tax. If you plan to pay the tax with additional distributions from your IRA, those additional distributions will also be subject to income tax (plus an additional 10% income tax for certain withdrawals before age 59-1/2). Paying tax from distributions from your IRA will create an interrelated variable calculation in which each withdrawal to pay tax generates more tax. In that case, you could have a much larger than expected tax cost.

You should prepare a financial plan illustrating the impact of any investment strategy on your financial situation. A PNC Private Bank^{SM} wealth strategist has the tools to help prepare these illustrations.

Three Planning Alternatives

Following are three different plans that focus on what an IRA owner's family could receive if the IRA owner passed away at different ages. These illustrations show only the income tax consequences of the plans and assume the following assumptions and conditions:

- Unless distributed to a charitable organization (which does not pay federal income tax on its income), the value of distributions from the IRA are reduced for income tax payable on the distribution.
- It is also assumed that the IRA owner has sufficient exclusion from the federal estate tax so that the IRA owner's estate would not owe any federal estate tax (state estate tax laws are not considered).
- These illustrations use hypothetical returns on investment, insurance data and tax rates. Your experience may differ. For example,
    - Your insurance pricing would be based on your personal circumstances.
    - Your rates of return would be based on your individual investment profile.
    - Your tax rates would be based on the amounts and types of your income, deductions you may be able to take, the state in which you live and other factors.
- Values are shown as of the end of each year.

Before deciding whether to engage in this type of planning, you should prepare financial plans that model the results based on your individual circumstances.

Plan 1 – Stay the Course – Transfer a Taxable

Traditional IRA Account to Your Family

Plan 1 assumes an IRA owner who has attained age 63. At the beginning of the first year, the IRA has an account value of $1 million. The assets in the IRA have a gross investment return of 6.5% per year.

At age 72, the IRA owner begins receiving required minimum distributions (RMD), which are subject to income tax at an assumed rate of 40%. The net after tax amount of the RMD is added to a taxable investment account. The taxable account also has a gross investment return of 6.5% per year, 2% of which is ordinary income. Ordinary income is subject to income tax at an assumed rate of 40%. The taxable account also has a 10% turnover rate (10% of its value each year) which is subject to capital gain tax at an assumed rate of 20%. For ease of illustration (although not necessarily realistic), upon the death of the IRA owner, the assets of the IRA are subjected to income tax at an assumed rate of 40%.

Table 1 shows what could pass from the IRA to the IRA owner's family if the IRA owner follows Plan 1 and were to die at age 65, 70, 75, 80, 85 or 90.

Table 1: Plan 1

END OF YEAR VALUES (IN DOLLARS) NO INSURANCE - IRA TO FAMILY

Client Age	Total IRA Assets	IRA Less 40% Tax on IRD	Taxable Acct. Value	Ins. Death Benefit	Asset to Heirs
65	1,207,950	724,770	0	0	724,770
70	1,654,996	992,997	0	0	992,997

75	1,915,393	1,149,236	190,650	0	1,339,886
80	2,037,737	1,222,642	541,993	0	1,764,635
85	2,031,969	1,219,182	1,055,846	0	2,275,028
90	1,843,980	1,106,388	1,767,921	0	2,874,309

Plan 2 – Use Part of Each RMD to Purchase Life Insurance

Assume the same basic facts as in Plan 1, above. Alternatively, assume that when the IRA owner begins receiving RMDs at age 72, the IRA owner uses $30,000 of the annual RMD to purchase a life insurance policy on the IRA owner's life having a death benefit of $1,025,411. (Remember that the values used in this example are illustrative only, you may not be able to purchase an insurance policy with these characteristics.) Assume that the policy is owned by someone other than the insured, such as an irrevocable life insurance trust (ILIT), so that the death benefit is not subject to federal estate tax.

Table 2 (page 4) shows what could pass to the IRA owner's family if the IRA owner follows Plan 2 and were to die at age 65, 70, 75, 80, 85 or 90.

Table 2: Plan 2

END OF YEAR VALUES (IN DOLLARS) PURCHASE INSURANCE AT AGE 73 - IRA AND INSURANCE DEATH BENEFIT TO FAMILY

Client Age	Total IRA Assets	IRA Less 40% Tax on IRD	Taxable Acct. Value	Death Benefit	Asset to Heirs
65	1,207,950	724,770	0	0	724,770
70	1,654,996	992,997	0	0	992,997
75	1,915,393	1,149,236	97,279	1,025,421	2,271,936
80	2,037,737	1,222,642	268,503	1,025,421	2,516,566
85	2,031,969	1,219,182	566,358	1,025,421	2,810,960
90	1,843,980	1,106,388	1,019,405	1,025,421	3,151,215

Plan 3 – Withdraw IRA Funds Before Required Beginning Date, Purchase Life Insurance

Assume the same basic facts as in Plan 1, above. Alternatively, assume that the IRA owner begins withdrawing $50,000 per year from the IRA at age 63 and upon attaining age 72, annually withdraws the greater of the annual RMD and $50,000. Further assume that the IRA owner uses $30,000 of each withdrawal from the IRA to purchase a life insurance policy on the IRA owner's life having a death benefit of $2,151,468. In this example, the $30,000 annual premium purchases a larger death benefit because the IRA owner obtained the insurance 10 years earlier than in Plan 2, above. Generally, all other factors being equal, younger insureds pay lower premiums than older insureds.

(Remember that the values used in this example are illustrative only, you may not be able to purchase an insurance policy with these characteristics.) Assume that the policy is owned by someone other than the insured, such as an ILIT, so that the death benefit is not subject to federal estate tax. The table below shows what could pass to the IRA owner's family if the IRA owner follows Plan 3 and were to die at age 65, 70, 75, 80, 85 or 90.

Table 3: Plan 3

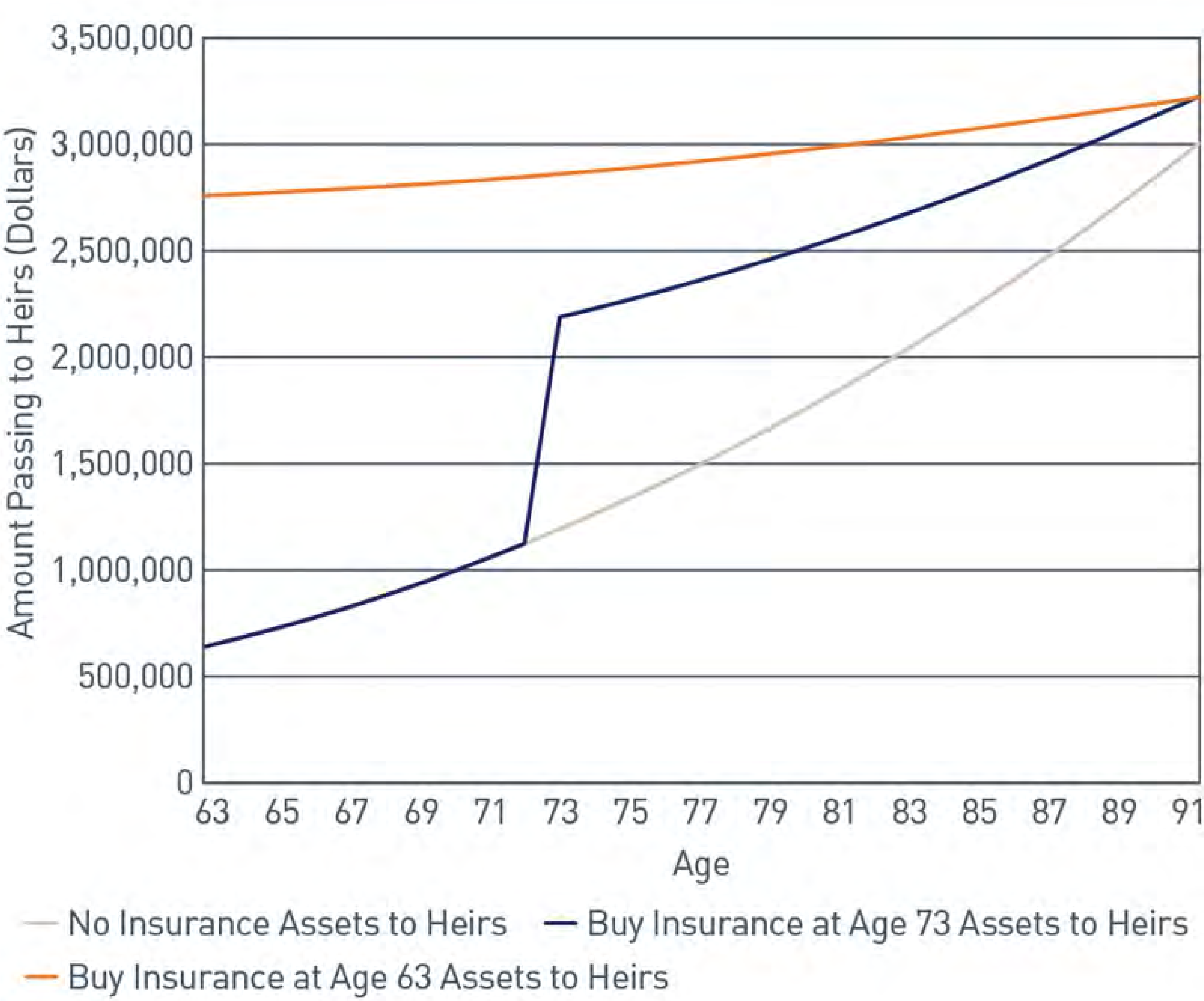
END OF YEAR VALUES (IN DOLLARS) PURCHASE INSURANCE AT AGE 63 - IRA AND INSURANCE DEATH BENEFIT TO FAMILY

Client Age	Total IRA Assets	IRA Less 40% Tax on IRD	Taxable Acct. Value	Death Benefit	Asset to Heirs
65	1,037,591	622,555	0	2,151,468	2,774,023
70	1,118,403	671,042	0	2,151,468	2,822,510
75	1,226,374	735,824	1,549	2,151,468	2,888,841
80	1,304,707	782,824	40,977	2,151,468	2,975,270
85	1,301,014	780,609	147,500	2,151,468	3,079,576
90	1,180,650	708,390	336,617	2,151,468	3,196,475

Three Plans Comparison

As illustrated in the tables above, it may be possible to pass more wealth to your family by using some of the assets in your IRA to purchase a life insurance policy. In fact, it may make sense to withdraw funds from your IRA before you are required to do so and use those funds to establish a life insurance program for the benefit of your family. Chart 1 compares the results of the three plans.

Chart 1: Using IRA Distributions to Buy Life Insurance



*View **accessible version** of this chart.*

Including a Charitable Beneficiary in the Wealth Plan

If your planning goals include gifts to charitable organizations, transferring the IRA to charity while replacing the IRA assets with a life insurance death benefit for your family can allow you to transfer the greatest amount to your beneficiaries in a tax-efficient manner.

Assume the facts from Plan 3, above, with the following change: The IRA owner designates a charitable organization as the beneficiary of the IRA. The table below shows what could pass to the IRA owner's family and to charity if the IRA owner were to die at age 65, 70, 75, 80, 85 or 90.

Table 4: Plan 3

END OF YEAR VALUES (IN DOLLARS) PURCHASE INSURANCE AT AGE 63; IRA TO CHARITY; INSURANCE DEATH BENEFIT TO FAMILY

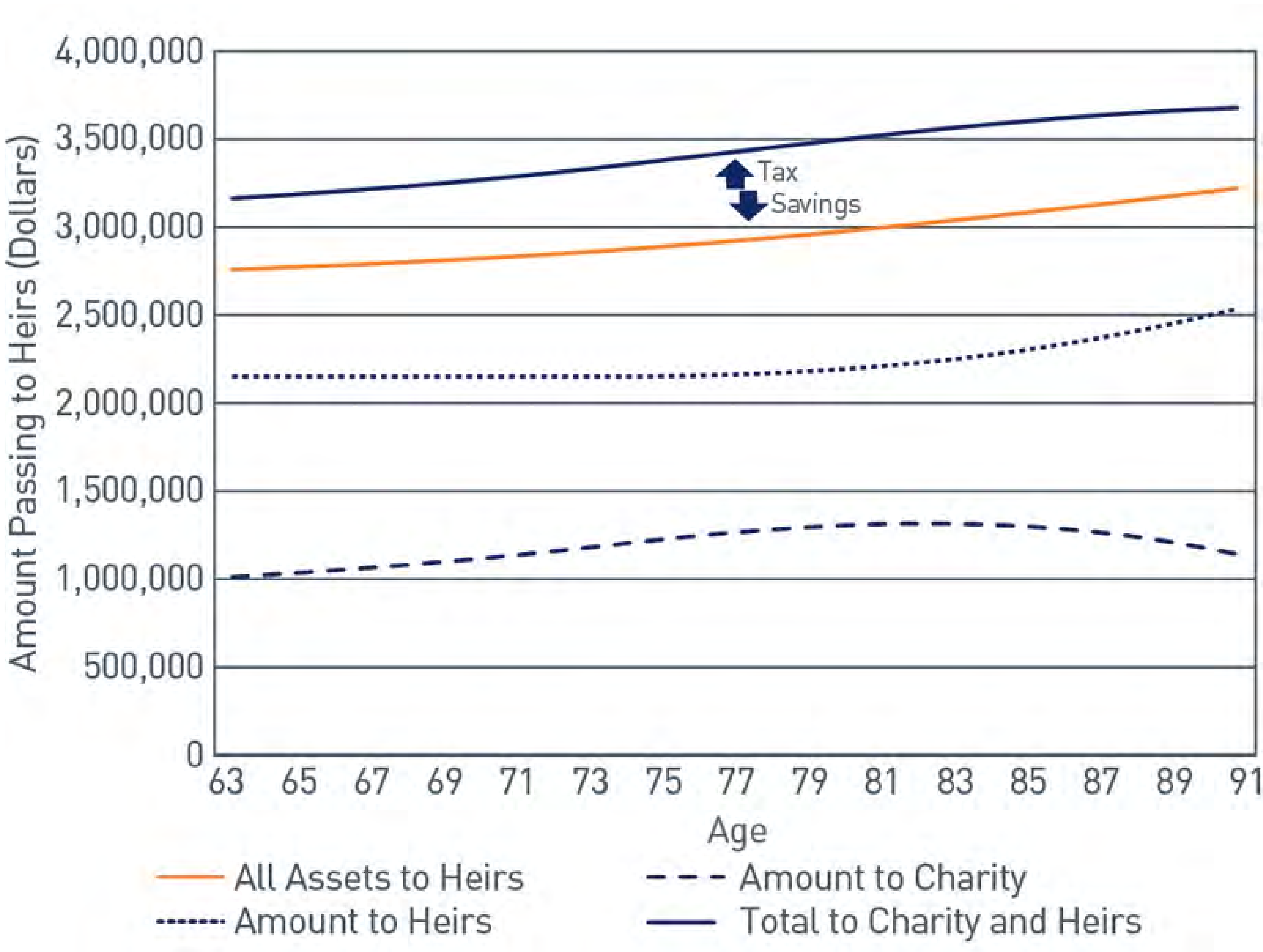
Client Age	Total IRA Assets	IRA Value;	Taxable Acct. Value	Death Benefit	Assets to Charity	Asset to Heirs	Total to All Beneficiaries

		No Tax on IRD					
65	1,037,591	1,037,591	0	2,151,468	1,037,591	2,151,468	3,189,059
70	1,118,403	1,118,403	0	2,151,468	1,118,403	2,151,468	3,269,871
75	1,226,374	1,226,374	1,549	2,151,468	1,226,374	2,153,017	3,379,391
80	1,304,707	1,304,707	40,977	2,151,468	1,304,707	2,192,445	3,497,153
85	1,301,014	1,301,014	147,500	2,151,468	1,301,014	2,298,968	3,599,982
90	1,180,650	1,180,650	336,617	2,151,468	1,180,650	2,488,085	3,668,735

Charitable Transfer Plan Comparison

Comparing Table 4 to the immediately preceding table shows it may be possible to achieve maximum tax savings by transferring your IRA to charity and providing for your family with life insurance. As illustrated in Chart 2, the combined value passing to charity and your family would exceed the amount were you to leave the IRA and insurance only to your family. Of course, because the IRA is passing to charity, your family would receive less than had both the insurance and IRA been left to them. Yet, by giving your IRA to charity and replacing some of that wealth for your family with a life insurance death benefit, you have removed the U.S. government as a beneficiary of your wealth.

Chart 2: Adding a Charitable Beneficiary



*View **accessible version** of this chart.*

Should You Do This?

Each family's financial position and planning goals are unique, and not every planning strategy is appropriate for each family.

> Nevertheless, replacing "high tax" IRA assets with "low tax" insurance death benefits, and perhaps including charity in your plan, can be a good way to transfer greater wealth with less tax following your death.

Before engaging in any wealth transfer strategy, you should determine if it is right for you and your family. A PNC Private Bank wealth strategist can work with your legal and tax advisors to illustrate how such a strategy would apply in your individual circumstances.

If you would like to learn more about the strategy presented herein, please contact any member of your PNC Private Bank team.

TEXT VERSION OF CHARTS

Chart 1: Using IRA Distributions to Buy Life Insurance (view image)

Age	No Insurance Assets to Heirs	Buy Insurance at Age 73 Assets to Heirs	Buy Insurance at Age 63 Assets to Heirs
63	639,000	639,000	2,758,518
65	724,770	724,770	2,774,023
67	822,052	822,052	2,791,608
69	932,392	932,392	2,811,554
71	1,057,542	1,057,542	2,834,178
73	1,192,626	2,188,047	2,859,837
75	1,339,886	2,271,936	2,888,841
77	1,499,850	2,363,753	2,921,068
79	1,672,990	2,463,609	2,956,441
81	1,859,721	2,571,533	2,994,827
83	2,060,337	2,687,402	3,035,985
85	2,275,028	2,810,960	3,079,576
87	2,503,992	2,941,923	3,125,231
89	2,747,268	3,079,810	3,172,441
91	3,004,979	3,224,189	3,220,712

Chart 2: Adding a Charitable Beneficiary* (view image)

Age	All Assets to Heirs	Amount to Charity	Amount to Heirs	Total to Charity and Heirs
63	2,758,518	1,011,750	2,151,468	3,163,218
65	2,774,023	1,037,591	2,151,468	3,189,059
67	2,791,608	1,066,900	2,151,468	3,218,368

69	2,811,554	1,100,144	2,151,468	3,251,612
71	2,834,178	1,137,849	2,151,468	3,289,317
73	2,859,837	1,180,616	2,151,468	3,332,084
75	2,888,841	1,226,374	2,153,017	3,379,391
77	2,921,068	1,265,127	2,161,992	3,427,119
79	2,956,441	1,294,291	2,179,867	3,474,157
81	2,994,827	1,311,887	2,207,695	3,519,582
83	3,035,985	1,315,010	2,246,978	3,561,989
85	3,079,576	1,301,014	2,298,968	3,599,982
87	3,125,231	1,268,675	2,364,026	3,632,701
89	3,172,441	1,215,187	2,443,329	3,658,516
91	3,220,712	1,140,967	2,536,131	3,677,099

*The line difference between the line marked "All Assets to Heirs" and the line marked "Total to Charity and Heirs" demonstrates the tax savings.

More on these topics:

Important Legal Disclosures and Information

1. Amounts passing to your surviving spouse either outright or in certain types of trust for the benefit of your surviving spouse may be deducted from the value of your gross estate when determining the amount of your taxable estate. It is often said that amounts passing to your surviving spouse (assuming they qualify for the "marital deduction") are not subject to federal estate tax.

2. The beneficiary of the retirement account will receive an income tax deduction for the estate tax attributable to the beneficiary's interest in the retirement account. However, this may not entirely offset that income tax. See, Internal Revenue Code (IRC) § 691(c).

3. IRC § 101.

4. IRC § 2042.

5. Although this article is oriented toward tax savings, making charitable contributions has other benefits, not the least of which is helping others.

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