Estate Planning Options in the Face of Today's Legislative, Inflationary and Interest Rate Environment

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Agenda

- **Update**
  - Current environment & client concerns
  - Policy review topics
  - Interest rates – historic overview

- **Focus Areas**
  - When should clients consider financing techniques?
    - Overview of the primary techniques
    - How interest rates impact selected planning strategies
    - Importance of having an exit strategy
  - Core planning opportunities with life insurance after the Secure Act & Secure Act 2.0

The Current Environment & Life Insurance Concerns

The Current Planning Environment

Competing economic forces

- Inflation
- Market volatility
- Interest rates - Federal Reserve actions tightening monetary policy

Domestic political division and unrest

- Slowing fiscal stimulus
- Deficit spending
- Debt ceiling and the national debt

Geopolitical instability and risk

Recession?

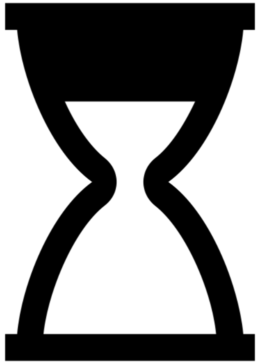
Current law under Tax Cuts and Jobs Act

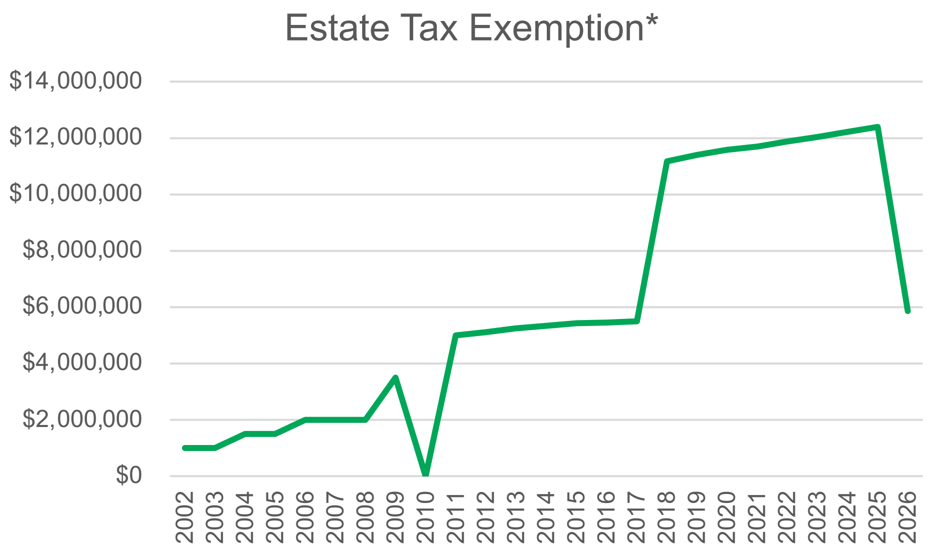
Lifetime Exemption

- Today 2024: $13,610,000 is the lifetime exemption
- Tomorrow 2025: This will continue to increase with inflation
- Jan 1, 2026 the TCJA will sunset/expire the estate tax will revert back to $5M (indexed for inflation)

Other Provisions Sunsetting

- Personal Exemptions, Deductions & Tax Brackets
- 199A Pass-Through deductions
- State and Local Tax (SALT) deduction Cap





*Projection is based on inflation as of January 2026, actual results may vary. Prior figures from www.irs.gov

What's the big deal?

Back of the napkin math

Single Individual	Jan 1 2024	Dec 31 2025	Jan 1 2026
Estate value	20,000,000	22,050,000*	22,050,050*
Lifetime exemption	13,610,000	14,290,500**	7,502,513**
Taxable estate	6,390,000	7,759,500	14,547,488
Tax rate	40%	40%	40%
Estate tax (est.)	2,556,000	3,103,800	5,818,995

The data shown is taken from a hypothetical calculation. It assumes a hypothetical rate of return and may not be used to project or predict actual results. *Assuming 5% estate growth
** Estimated (5%) estate exemption
Projection is based on inflation as of January 2026, actual results may vary. Prior figures from www.irs.gov
Life Expectancy (LE) based on 2015 VBT Primary Table.

Result? → Uncle Sam gets $2.7M more in taxes overnight

Story doesn't end there…

- Appreciation outside estate
- Liquidity needs – tax bill due 9 months after date of death
- Creditor protection
- Tax laws are unpredictable
- Changes in health

Importance of Policy Review

Why do HNW clients buy life insurance?

If assets are gifted/transferred, why insurance?

Key Benefits:

- Liquidity needs
- Tax diversification
- Favorable internal rate of return*

- Compare: gift to trust and invest" versus "gift to trust and purchase life insurance"

- Can a trustee optimize trust-owned assets with life insurance

Planning needs

- Offset income taxes on assets that don't receive a step-up (or if step-up is repealed)
  - IRA/401(k) assets
  - Assets held in irrevocable trusts
- Estate equalization
- Enhanced legacy to heirs, "protective" inheritances
- Estate tax planning liquidity
  - HNW clients $10M+
  - State level estate tax
  - Foreign nationals subject to U.S. estate tax ($60k exemption)

*The IRR on death benefit is equivalent to an interest rate at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the net death benefit of the policy.

Forms of Life Insurance

Term

- Lower premiums for temporary coverage
- Various terms available

Whole Life

- Guaranteed level premium
- Guaranteed policy values
- Typically conservative growth

Survivorship (Second-to-Die)

- Death benefits payable on second death
- Can use alternate insurance form chassis
- Economies of scale for cost

Universal Life

- Typically min guaranteed rates
- Limited cash value volatility
- Flexible premium & benefit options

Indexed Universal Life

- Stated floor guaranteed
- Greater upside potential than UL, less upside potential (and fewer options) than VUL

Variable Universal Life

- Potential for negative returns
- Greater upside potential than UL or IUL

Why is policy review important?

Financial goals evolve and change — help ensure that the policy continues to meet the client's needs and goals

- Is the death benefit still appropriate and adequate?
- Life events: marriage/divorce, new child, caring for elderly parents
- Financial stability: job change/promotion, starting/selling a business, retirement

Pulse check on the performance/stability of the policy — make sure policy is performing according to expectations

- Advances in underwriting and product design
- Legislative or regulatory changes may impact your client's planning strategies or needs

Products evolve and laws change — introduce new and innovative solutions to help optimize customer needs

- Underfunded policies, loans or withdrawals may affect performance (along with interest rate and market volatility)
- Company's financial strength and stability of the company

Things to consider

Ownership and Beneficiary designation

Policy performance and adequate funding

- Obtain an inforce illustration
- Address any underperformance issues

Suitability

Replacement and 1035 exchanges when appropriate

- Individually owned
- Trust owned
- Business related policies – Always check 101(j) compliance

Concerns related to Life Insurance

Client Concerns related to life insurance policy selection may include:

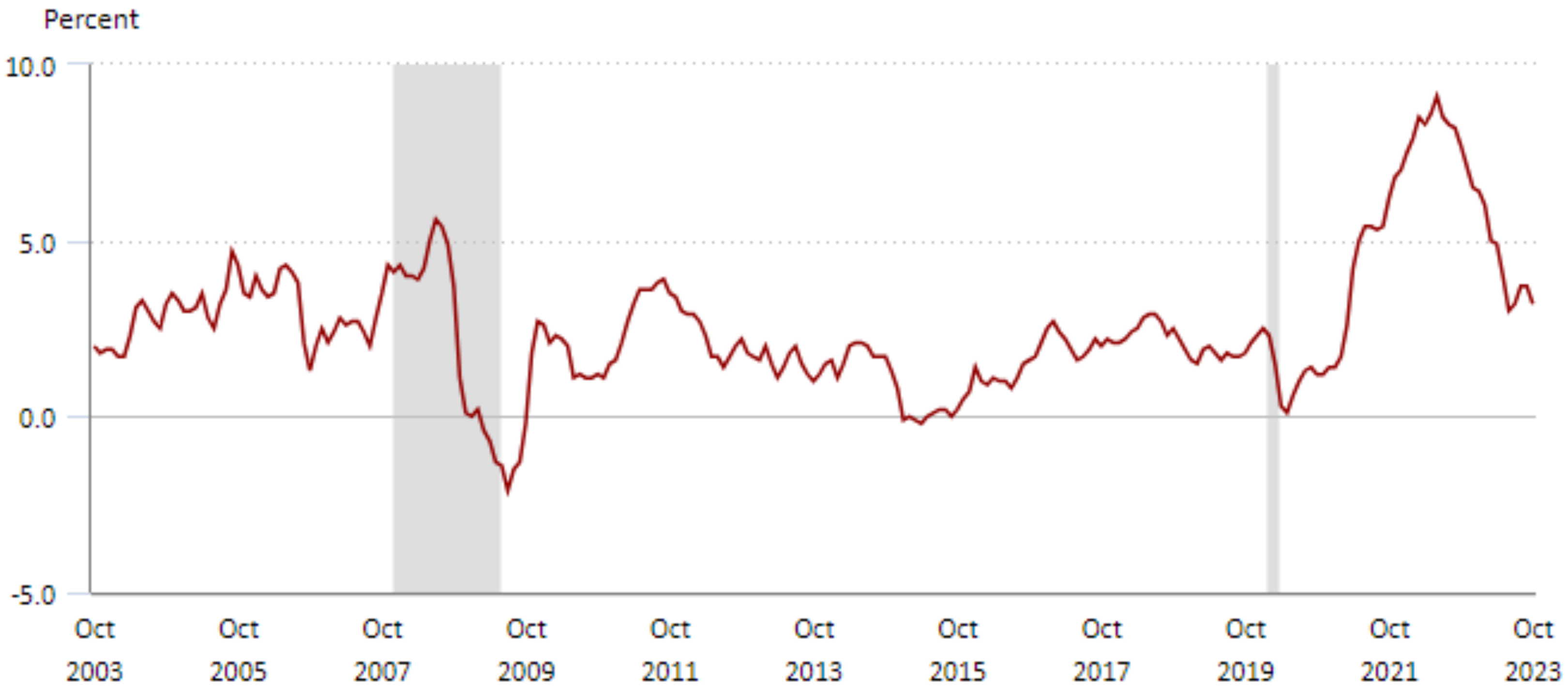
- Market risk and potential for loss – client risk tolerance
- Understanding what is guaranteed and what is not
- Adequately funding life insurance policies
- Inflation's impact on death benefit needs
- Long term care needs

- Diversification objectives
  - Tax diversification
  - Financial diversification through product and subaccount selection
  - Addressing mortality and morbidity risk

20 Years of Historical Inflation

Using planning to offset the risk of Inflation

Consumer Price Index, 12-month percentage change, not seasonally adjusted

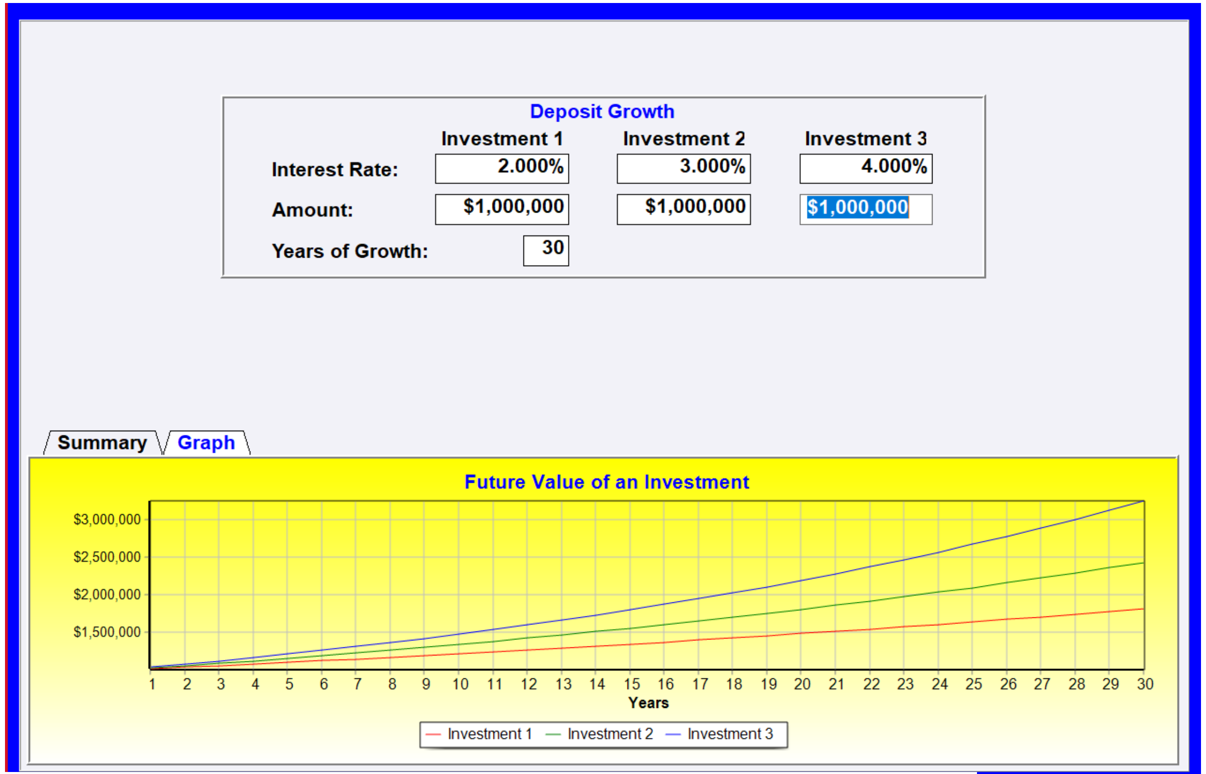


Source: U.S. Bureau of Labor Statistics, Graphics for Economic News Releases, https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm

Inflation Adjusting 1M in Death Benefit

Inflation's Impact –

Are Clients Purchasing Enough Death Benefit?



Number of Years	Future Value #1	Future Value #2	Future Value #3
19	$1,456,813	$1,753,505	$2,106,849
20	$1,485,949	$1,806,110	$2,191,123
21	$1,515,668	$1,860,293	$2,278,768
22	$1,545,981	$1,916,102	$2,369,919
23	$1,576,901	$1,973,585	$2,464,716
24	$1,608,439	$2,032,793	$2,563,305
25	$1,640,608	$2,093,777	$2,665,837
26	$1,673,420	$2,156,590	$2,772,470
27	$1,706,888	$2,221,288	$2,883,369
28	$1,741,026	$2,287,927	$2,998,704
29	$1,775,847	$2,356,565	$3,118,652
30	$1,811,364	$2,427,262	$3,243,398

Steve Leimberg's NumberCruncher 2021.02

https://leimberg.com/Software/NumberCruncher/Overview

This is a hypothetical example for illustrative purposes only.

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Designing a Policy in Response to Inflation Concerns

Options to Help Address Inflation Concerns
Clients might consider:

- Purchasing more death benefit initially
- Return of premium rider if available
- Option 2 increasing death benefit designs
- Scheduled increasing death benefit if permitted
- Heavily funding Option 1 level death benefit design so potential cash value increases may drive up the death benefit in later years

Flexible funding options for the Estate Plan

Giving up control

Loss of Control

Potential Estate Tax Savings

People might dislike paying taxes…

but they **fear giving up control**

Why consider a financing option?

A financing technique may help if:

- Client would like to take a “wait and see” approach on gifting
- Client does not want to liquidate or give up control over assets
- Comfortable with using leverage to purchase assets
- Gift exemptions have been exhausted or are earmarked for other planning purposes

Designing the case

Planning Strategies should meet the client's objectives

Key Considerations: Examine client assets/profile:

(1) Liquid or illiquid
- Business, Real Estate, cash flow, yield, basis

(2) Gifting capability
- Annual exclusions, lifetime exemption

(3) Age/Rating

(4) Existing Trust Assets -
- Liquid Assets
- Business Interests, Real estate, etc

(5) Exit strategy is necessary when financing is used

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Options for finding funds to pay premiums

Finding the money

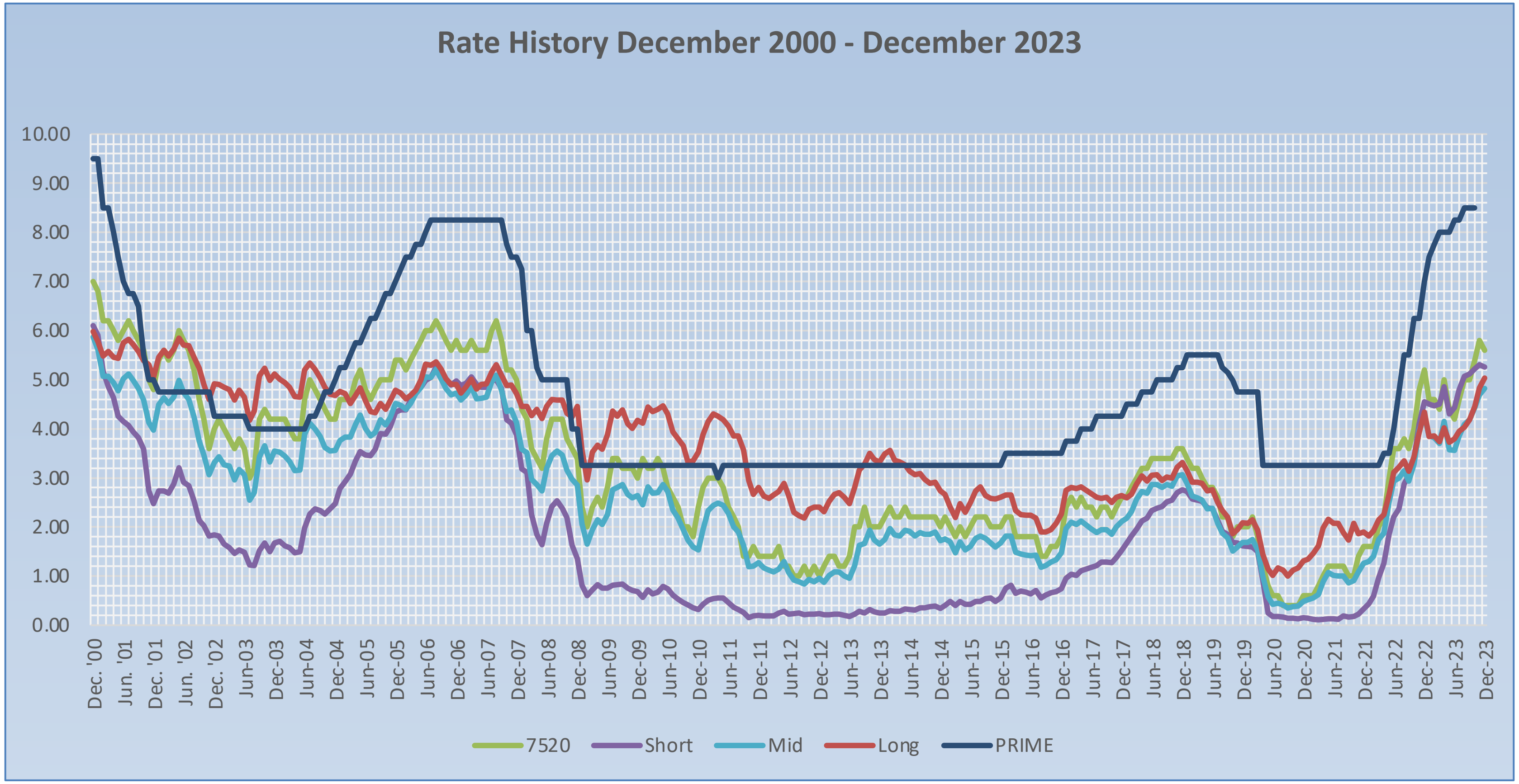
1. Gifting
2. Using Existing Funded trusts (or wealth already outside the taxable estate)
3. Financing techniques
   - Commercial Premium Financing
   - Private Financing/loan regime split dollar
   - Dual loan approach
   - Private Split Dollar (economic benefit regime)
   - Sale to an intentionally defective irrevocable trust
4. Estate Planning Using Employer funds

Perception/ Reality

Interest rate changes impact planning strategies

Rising Interest Rates?

- Some interest rates have risen from near zero to hover around 5% since Jan 2022
- Interest rate increases change the financing discussion



Source: www.irs.gov

Perception/ Reality

	January 2022	January 2024	20 Year Average
LIBOR/SOFR	0.59%	5.40%*	2.66%
Short Term AFR	0.44%	5.00%	1.74%
Mid Term AFR	1.30%	4.37%	2.49%
Long Term AFR	1.82%	4.54%	3.37%
Sec 7520	1.60%	5.20%	2.99%

- Are we at or close to peak?
- Will rate return to historic norms in 12/24 months?
- Is it a bull or bear market?
- Are there techniques unaffected by interest rate swings?
- Estate tax exemption sunset in 2026 to 5M (plus inflation) – urgency in planning

→ Clients need options to make informed decisions ←

Source: www.irs.gov
*LIBOR has been discontinued, current rate listed is SOFR rate which has replaced LIBOR as a benchmark rate in the industry

Financing Options

Financing options at a *glance*

This chart summarizes some of the financing options available to fund a large life insurance need.

	Private financing	Sale to an intentionally defective grantor trust	Commercial premium financing	Dual loan	Private split dollar
Lender	Grantor or Trust or Family Member	Grantor	Third Party Lender	Institutional Lender and Grantor	Grantor or Trust or Family Member
Borrower	ILIT	ILIT	ILIT	ILIT	ILIT
Description	Loan technique that offers flexibility in plan design and requires Grantor to have cash available.	Sale technique that requires income producing and/or appreciating assets.	Approved third-party lender provides loan to ILIT for purchase of life insurance.	Combines different loan arrangements (private and institutional loans) to minimize loan interest cost and offer flexibility in plan design.	Grantor pays premium on behalf of ILIT and ILIT owes greater of cash value or premiums paid.
How It Works	Grantor loans cash to ILIT to provide liquidity to pay for large premiums.	Grantor sells income producing assets to IDGT[2] in exchange for a promissory note. Trustee uses income to purchase life insurance.	Third-party lender loans the premium to the ILIT to provide liquidity to pay large premiums.	Combination of institutional loan to Grantor and a private finance loan between Grantor and ILIT.	Grantor as lender provides liquidity to the ILIT to pay large premiums on needed policy.
Annual Cost of Financing/ Interest Rate	Applicable Federal Rate (AFR)	Applicable Federal Rate (AFR)	SOFR + spread (typically)	Rates linked to each type of loan arrangement (typically combination of institutional loan rate and AFR).	Economic Benefit costs (annual term costs or Table 2001 rates).
Potential Gift Tax Impact (often associated with Interest Due)[1]	Generally, Grantor makes gifts to the trust to pay the interest due. If Grantor makes a lump sum loan upfront, trust may be able to pay the interest without requiring gifts from Grantor.	No gift required other than the initial "seed" gift. Interest payments received on the note are not income taxable to Grantor.	Grantor gifts the interest due to ILIT. ILIT pays interest to lender. May be subject to gift tax if above exemption.	**Private Finance Loan:** If lump sum, ILIT has assets to pay interest to Grantor; no gift necessary. **Institutional Loan:** Grantor pays lender interest directly; thus, gifting is not needed.	Economic Benefit cost is a gift to ILIT and requires gifting, thus might be subject to gift taxes, especially in later years.
Benefits	Flexibility in plan design based on client resources. Can be designed to either preserve gifting (if available) or avoid gift and transfer taxes (if gifting is not available).	Estate freeze for assets that are expected to appreciate significantly, income and gift tax efficiency.	No need to liquidate taxable assets to fund liquidity needed for premiums. Can be designed to either preserve gifting (if available) or avoid gift and transfer taxes (if gifting is not available).	Minimizes gift taxes and reduces the need to liquidate taxable assets to fund premiums.	Generally requires limited gifting, especially because Economic Benefit costs in earlier years are typically lower than AFR.
Collateral	Not required but often advisable; policy may be used.	Not required but often advisable.	Policy and/or other liquid assets. Grantor may have to provide personal guaranty.	Collateral requirements of institutional lender.	Policy

1. GST exemption should be allocated to gifts of interest/Economic Benefit (to avoid potential GST tax impact). • 2. Intentionally Defective Grantor Trust.

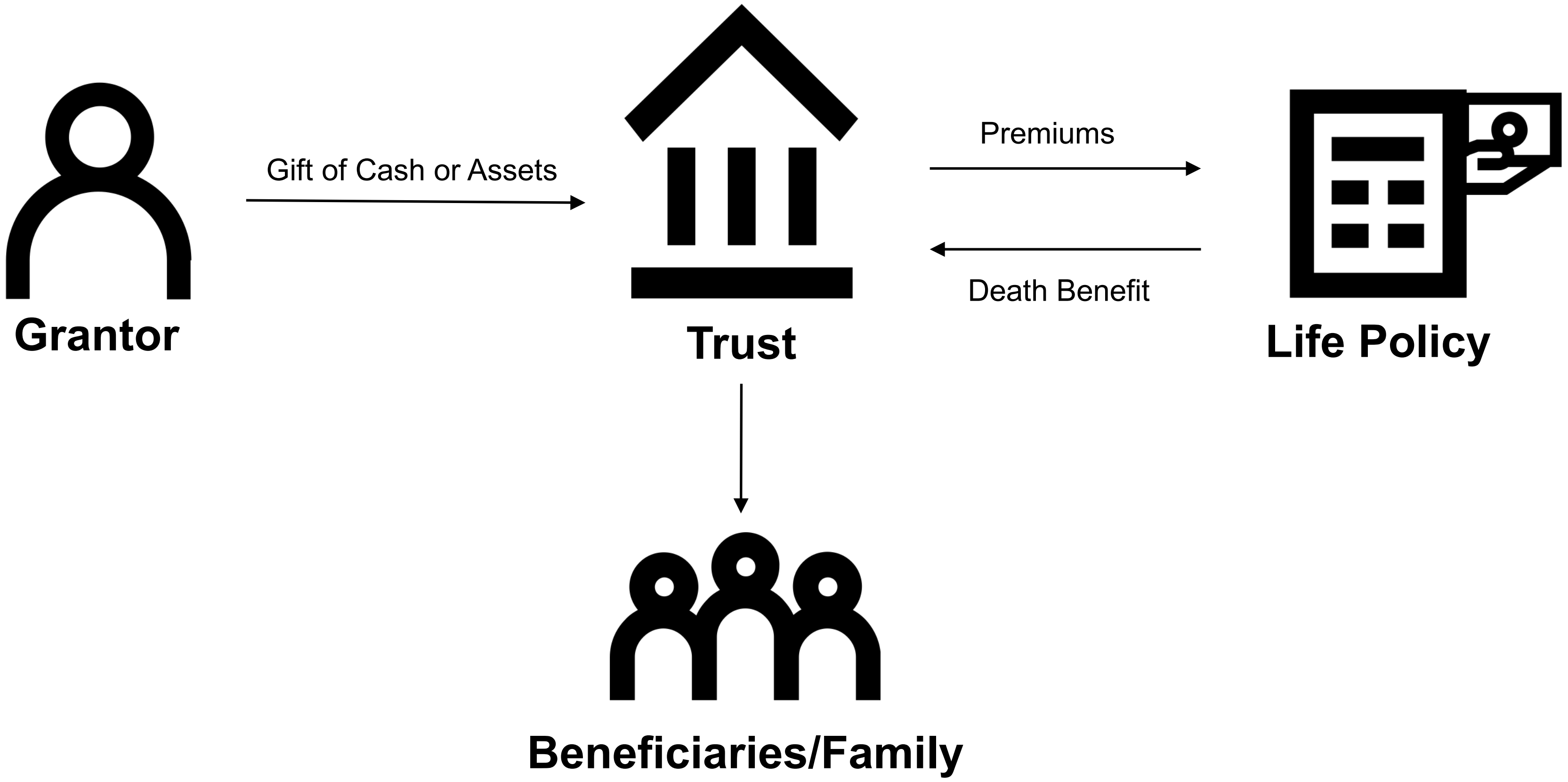
Case Study

Client Profile

- Clients are married couple, 3 adult children but no grandchildren yet
- Net Worth $50M
- Liquid Assets $20M
- Business Interest $20M
- Real Estate Assets $10M
- Used majority of their lifetime exemption in 2022 to pass minority business interest to 1 child
- Goals: equalize inheritance to other children, and leave charitable legacy
- Need additional $15M of Survivorship Life Insurance

→ What are their choices, and which may be most efficient? ←

Gifting


Gift of Cash or Assets
Premiums
Death Benefit
Grantor
Trust
Life Policy
Beneficiaries/Family

Choice 1- Make annual gifts of premiums

Benefits

- ✓ Easiest, most efficient means
- ✓ No risk from “outside” elements
- ✓ Long term policy guarantee

Concerns

- ✗ Premium exceeds annual exclusions
- ✗ Sunset may subject premium to gift taxes
- ✗ No measurable estate reduction technique other than premium payment

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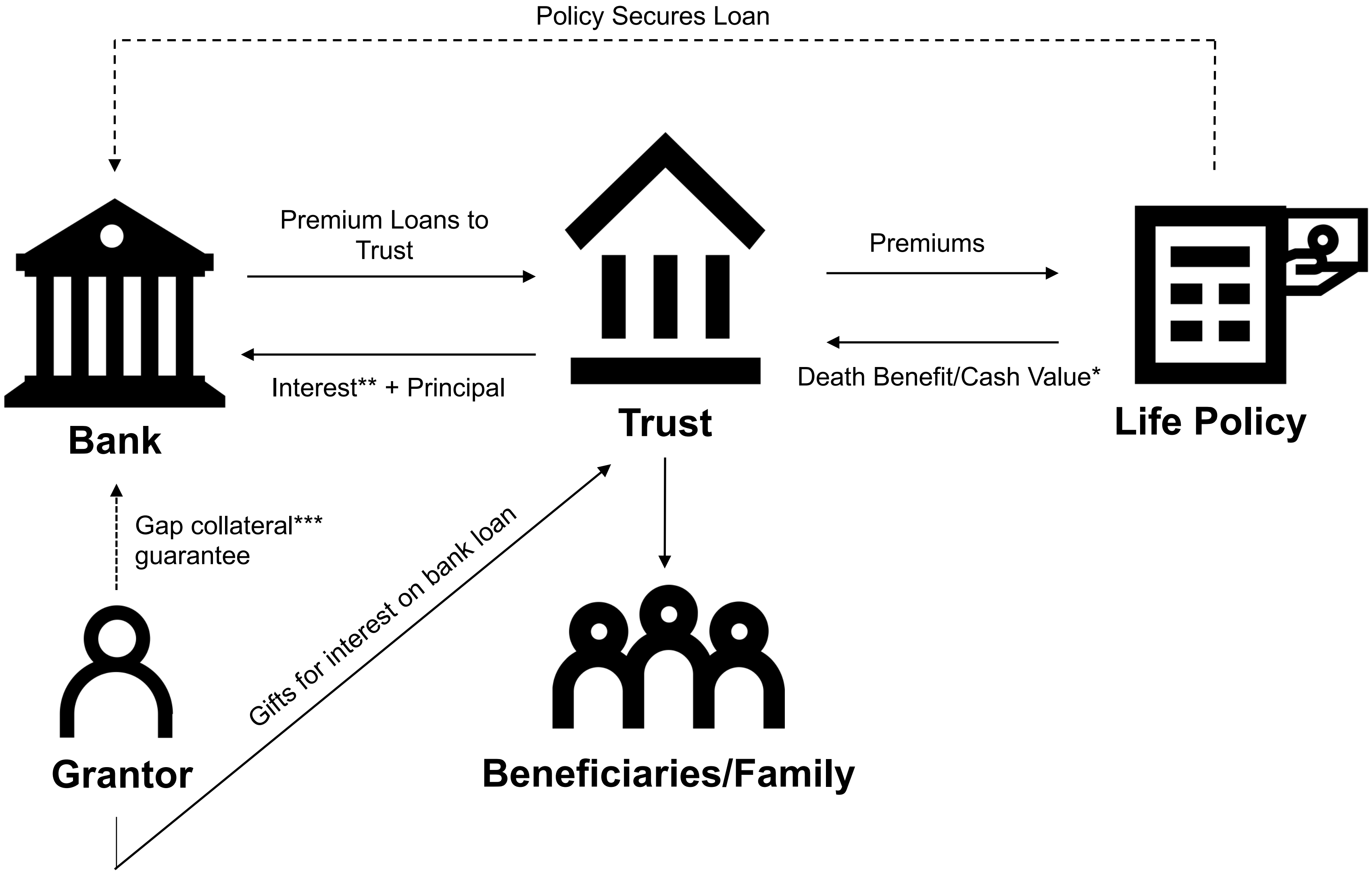
Commercial Premium Financing



*Technique relies heavily on arbitrage between policy performance and interest rates
** Interest typically One-Year SOFR + 150-200 bps;
***Lender may require grantor to guarantee the loan to the trust, and to put up additional collateral if the assets in the trust do not fully collateralize the loan.

Choice 2- Commercial Finance: Overfunding Design

	Commercial premium financing
Lender	Third Party Lender
Borrower	ILIT
Description	Approved third-party lender provides loan to ILIT for purchase of life insurance.
How It Works	Third-party lender loans the premium to the ILIT to provide liquidity to pay large premiums.
Annual Cost of Financing/ Interest Rate	SOFR + spread (typically)
Potential Gift Tax Impact (often associated with Interest Due)[1]	Grantor gifts the interest due to ILIT. ILIT pays interest to lender. May be subject to gift tax if above exemption.
Benefits	No need to liquidate taxable assets to fund liquidity needed for premiums. Can be designed to either preserve gifting (if available) or avoid gift and transfer taxes (if gifting is not available).
Collateral	Policy and/or other liquid assets. Grantor may have to provide personal guaranty.

1. GST exemption should be allocated to gifts of interest/Economic Benefit (to avoid potential GST tax impact).

Benefits

- Use of outside funds to pay premium
- Initial interest payments less than premium
- Retain assets in estate
- “Built In” exit strategy using policy potential cash value to repay lender

Concerns

- High premium needed to accumulate CV
- Subject to Interest rate volatility
- Minimal policy guarantee
- Increase in annual exemption may not cover future gifts of interest
- Sunset may cause interest payment to be subject to gift taxes
- Policy performance determine timing of loan repayment
- Initial collateral needs
- No measurable estate reduction other than gift of interest payments
- Lender may deny future loans or call loan at any time

Choice 3- Commercial Finance: minimum premium, *Gift Rollout*

	Commercial premium financing
Lender	Third Party Lender
Borrower	ILIT
Description	Approved third-party lender provides loan to ILIT for purchase of life insurance.
How It Works	Third-party lender loans the premium to the ILIT to provide liquidity to pay large premiums.
Annual Cost of Financing/ Interest Rate	SOFR + spread (typically)
Potential Gift Tax Impact (often associated with Interest Due)[1]	Grantor gifts the interest due to ILIT. ILIT pays interest to lender. May be subject to gift tax if above exemption.
Benefits	No need to liquidate taxable assets to fund liquidity needed for premiums. Can be designed to either preserve gifting (if available) or avoid gift and transfer taxes (if gifting is not available).
Collateral	Policy and/or other liquid assets. Grantor may have to provide personal guaranty.

Benefits

- Finance lowest premium possible
- Use increases in lifetime exemption to gift cash to trust to service loan interest and loan repayment
- Reduction of estate by large upfront gift
- Manageable investment risk of gifted asset to achieve ROR to service loan
- Long term policy guarantee

Concerns

- Interest subject to interest rate volatility
- Collateral needs may exceed value of gifted trust assets plus policy CV
- Investment performance may extend illustrated loan repayment
- Shortfall in trust assets may cause additional gifts subject to gift taxes

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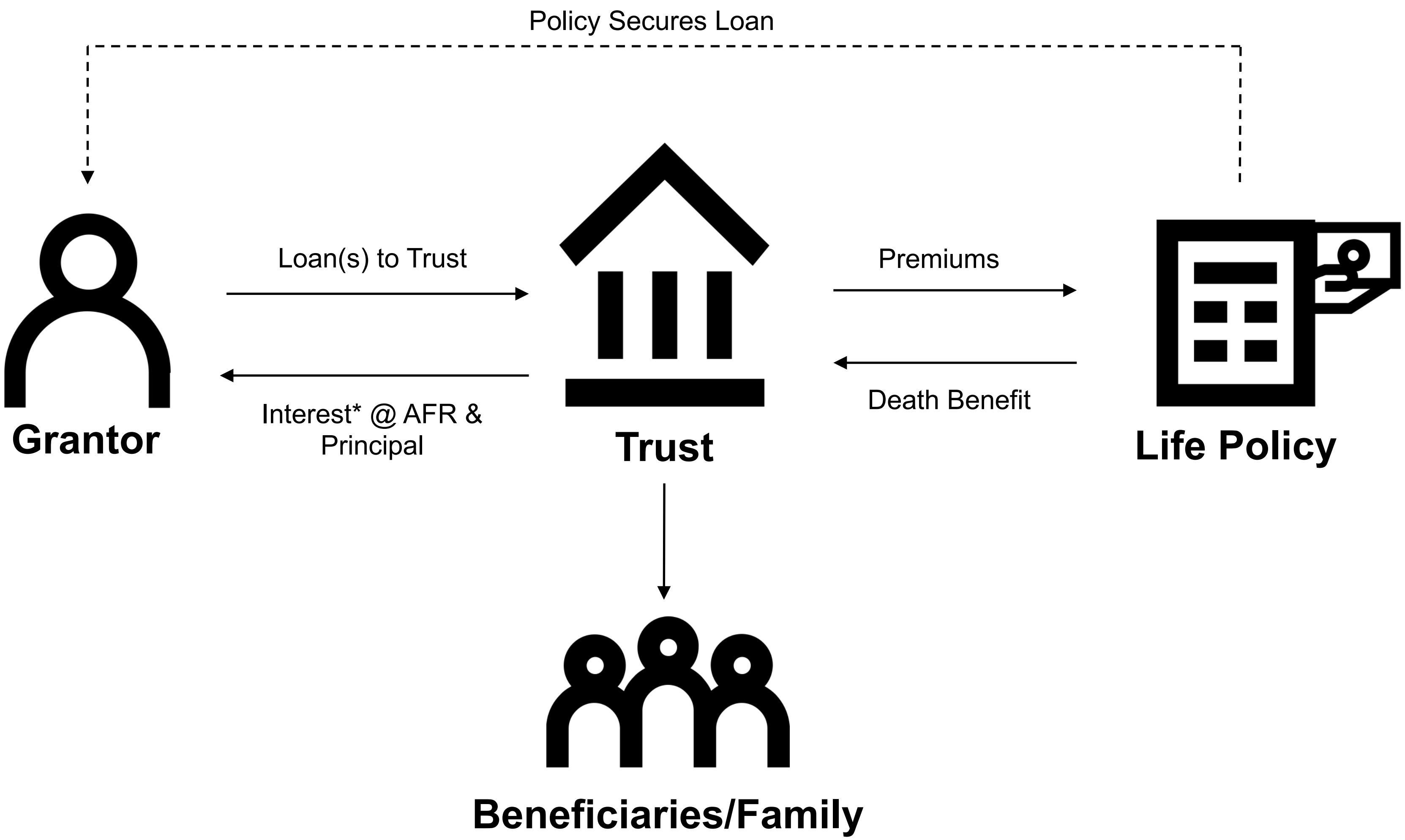
Private Financing

(Also used as part of the "Dual Loan" approach)



*No recognition of income on interest payments when Trust is a "grantor defective" trust

Option 4 – Private Finance

	Private financing
Lender	Grantor or Trust or Family Member
Borrower	ILIT
Description	Loan technique that offers flexibility in plan design and requires Grantor to have cash available.
How It Works	Grantor loans cash to ILIT to provide liquidity to pay for large premiums.
Annual Cost of Financing/ Interest Rate	Applicable Federal Rate (AFR)
Potential Gift Tax Impact (often associated with Interest Due)[1]	Generally, Grantor makes gifts to the trust to pay the interest due. If Grantor makes a lump sum loan upfront, trust may be able to pay the interest without requiring gifts from Grantor.
Benefits	Flexibility in plan design based on client resources. Can be designed to either preserve gifting (if available) or avoid gift and transfer taxes (if gifting is not available).
Collateral	Not required but often advisable; policy may be used.

Benefits

- Estate Freeze at AFR on Loan Assets during loan term
- No Interest Rate Risk-Fixed Rate Loan
- Finance lowest possible premium
- Long Term Policy Guarantee
- Manageable investment risk of loan asset by Trustee
- Interest Income received income tax free (offset tax cost of trust activity)
- No upfront gifts needed

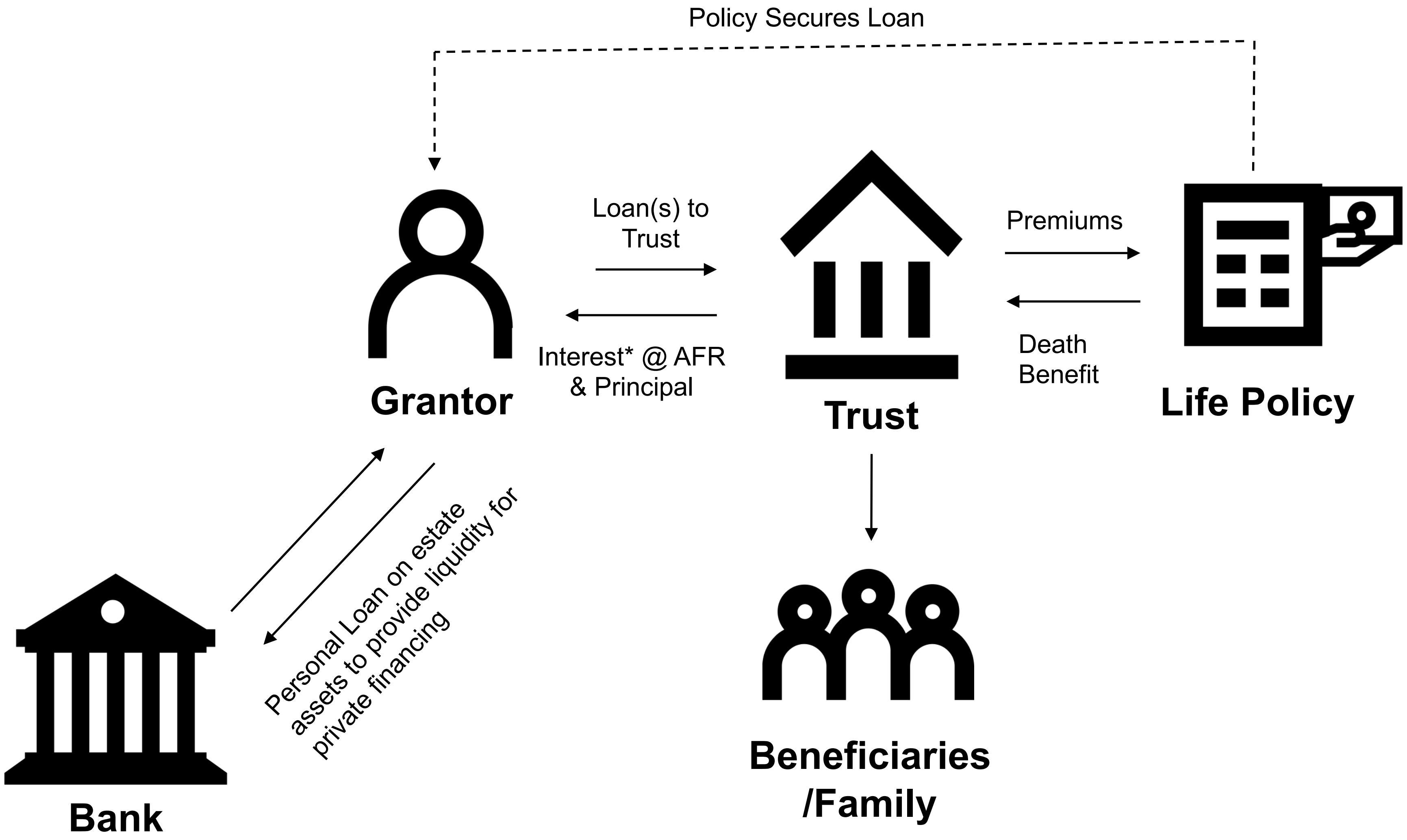
Concerns

- Large upfront commitment
- Cash or equivalents for Loan or Asset could be sold to the defective grantor trust
- Investment performance could extend loan duration- refinance or gift option to manage this risk
- Liquidation tax cost of estate assets to raise funds needed for Private Finance loan

1. GST exemption should be allocated to gifts of interest/Economic Benefit (to avoid potential GST tax impact).

Dual Loan

Marry Commercial Financing with Private Financing



*No recognition of income on interest payments when Trust is a "grantor defective" trust

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Option 5- Dual Loan

	Dual loan
Lender	Institutional Lender and Grantor
Borrower	ILIT
Description	Combines different loan arrangements (private and institutional loans) to minimize loan interest cost and offer flexibility in plan design.
How It Works	Combination of institutional loan to Grantor and a private finance loan between Grantor and ILIT.
Annual Cost of Financing/ Interest Rate	Rates linked to each type of loan arrangement (typically combination of institutional loan rate and AFR).
Potential Gift Tax Impact (often associated with Interest Due)[1]	**Private Finance Loan:** If lump sum, ILIT has assets to pay interest to Grantor; no gift necessary. **Institutional Loan:** Grantor pays lender interest directly; thus, gifting is not needed.
Benefits	Minimizes gift taxes and reduces the need to liquidate taxable assets to fund premiums.
Collateral	Collateral requirements of institutional lender.

1. GST exemption should be allocated to gifts of interest/Economic Benefit (to avoid potential GST tax impact).

Benefits

- Raise cash needed for Private Finance Loan (See benefits/concerns from prior concept)
- Borrow against equity on estate assets
- Retain assets in estate
- Negotiate rate with personal Lender
- No gift associated with interest payments on "personal loan"

Concerns

- Personal loan rate may be subject to interest rate fluctuation
- Investment performance of trust assets will dictate timing of repayments of both loans (see private finance)
- Shortfall of personal debt obligation covered by estate assets or carry the loan for longer duration in estate
- Personal assets provide collateral for personal loan subject to asset valuation

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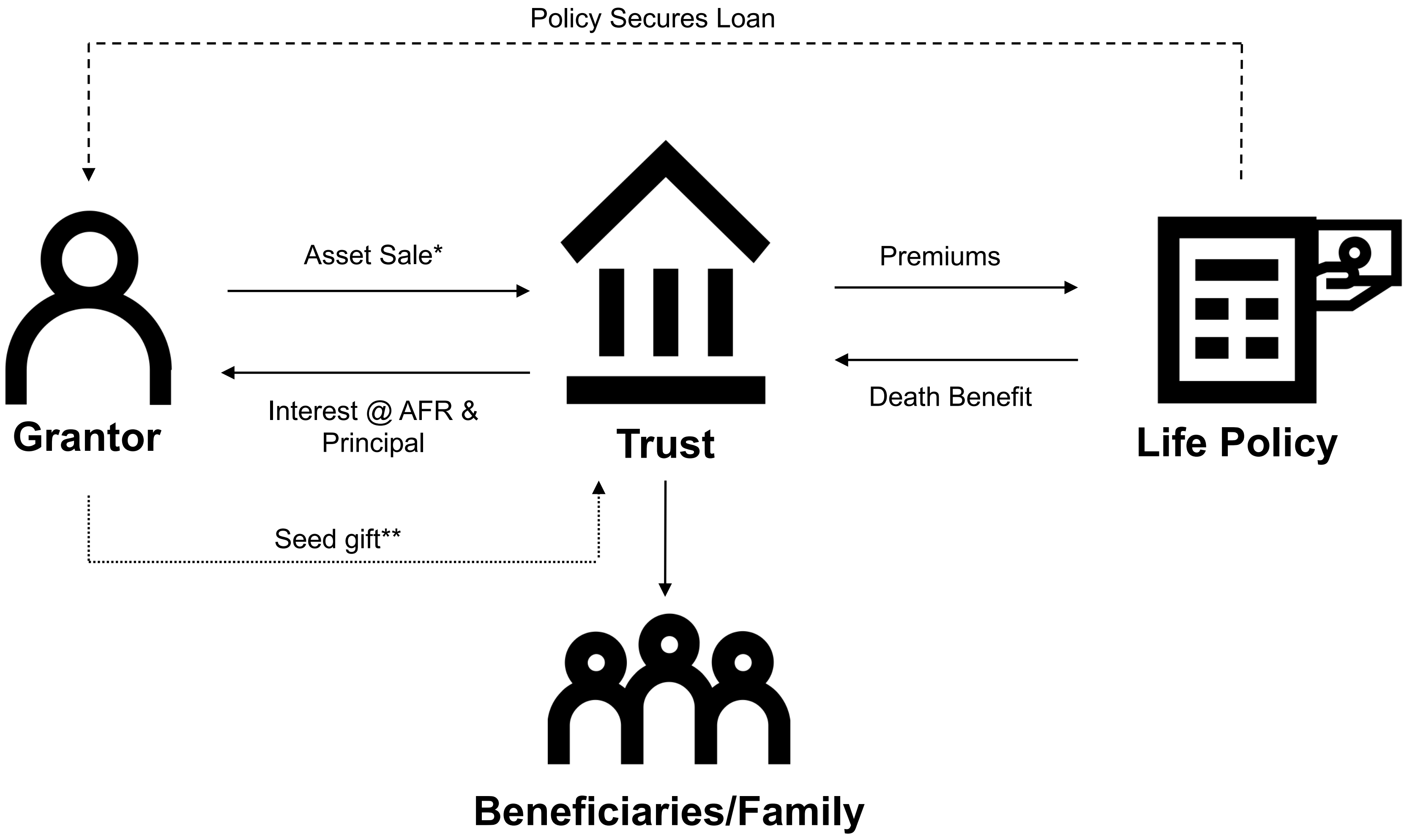
Sale to a Grantor Trust



*No recognition of gain on sale or interest payments when Trust is a “grantor defective” trust
** Usually equal to at least 10% of the FMV of assets to be sold

Option 6 – Sale to an Intentionally Defective Grantor Trust

	Sale to an intentionally defective grantor trust
Lender	Grantor
Borrower	ILIT
Description	Sale technique that requires income producing and/or appreciating assets.
How It Works	Grantor sells income producing assets to IDGT[2] in exchange for a promissory note. Trustee uses income to purchase life insurance.
Annual Cost of Financing/ Interest Rate	Applicable Federal Rate (AFR)
Potential Gift Tax Impact (often associated with Interest Due)[1]	No gift required other than the initial "seed" gift. Interest payments received on the note are not income taxable to Grantor.
Benefits	Estate freeze for assets that are expected to appreciate significantly, income and gift tax efficiency.
Collateral	Not required but often advisable.

Benefits

- Fixed interest cost
- Estate freeze of future asset appreciation
- Asset sold and gifted may qualify for valuation discounts
- Income generated from the asset can be leveraged with life insurance
- Income-tax neutral transaction

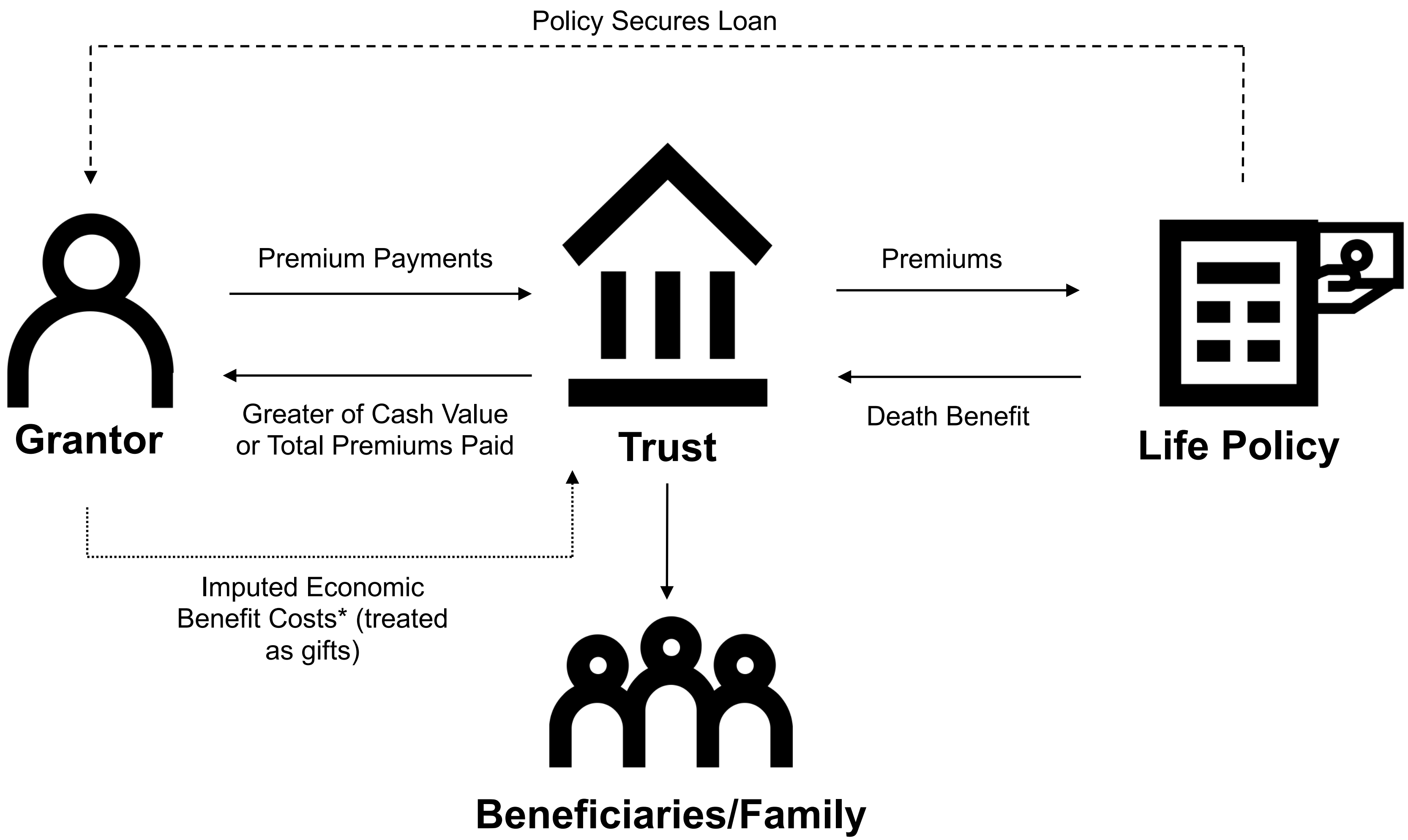
Concerns

- Promissory note is retained in the estate
- Investment performance of trust assets will dictate timing of loan repayment
- Liquidity needed outside of trust to pay income taxes and inside trust to service the loan/pay insurance premiums
- Loss of control of the portion of the asset sold to the ILIT
- Qualified appraiser will be needed to value closely held assets and real estate.

1. GST exemption should be allocated to gifts of interest/Economic Benefit (to avoid potential GST tax impact).

Private Split Dollar

Economic Benefit Regime



- *Determined based on net amount of DB payable to the trust each year, economic benefit rates (Table 2001 or carrier alternative term rates), and insured's age

Economic Benefit Costs

Economic Benefit Costs vs. Loan interest

Year	Premium	Due Grantor	Economic Benefit Cost*	Loan Interest Cost (5%)	Death Benefit
1	$258,864	$258,864	$1,414	$12,943	$10,000,000
5	$258,864	$1,294,320	$3,120	$64,716	$10,000,000
9	$258,864	$2,329,776	$5,976	$116,489	$10,000,000
10 (Total)	**$2,329,776**	**($2,329,776)**	**$30,221**	**$582,444**	**$10,000,000**

*Based on the P.S. 38 costs attributable to a Survivorship policy on a 65M/65F

This is a hypothetical example for illustrative purposes only.

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Option 7 - Private Split Dollar

	Private split dollar
Lender	Grantor or Trust or Family Member
Borrower	ILIT
Description	Grantor pays premium on behalf of ILIT and ILIT owes greater of cash value or premiums paid.
How It Works	Grantor as lender provides liquidity to the ILIT to pay large premiums on needed policy.
Annual Cost of Financing/ Interest Rate	Economic Benefit costs (annual term costs or Table 2001 rates).
Potential Gift Tax Impact (often associated with Interest Due)[1]	Economic Benefit cost is a gift to ILIT and requires gifting, thus might be subject to gift taxes, especially in later years.
Benefits	Generally requires limited gifting, especially because Economic Benefit costs in earlier years are typically lower than AFR.
Collateral	Policy

Benefits

- Annual funding option available vs. lump sum
- Economic Benefit cost not effected by interest rate environment
- Economic Benefit "gift" covered by annual exclusions
- Economic benefit cost predictable at carrier YRT rates or Government Table 2001-10 (Joint Life)
- Many alternatives for exit strategies

Concerns

- Mortality risk on joint life may change EB rates to single life rates which are higher
- Exit Strategy needed to terminate arrangement
- Investment returns on asset used for exit strategy may extend time the agreement remains in effect
- Need to consider policy form and performance to manage roll out timing and gain position for collateral assignment receivable

Importance of an Exit Strategy in any Financing Design

Potential Exit Strategies

- Gifts
- Assets already in the irrevocable trust
  - Asset sales or other liquidity events
  - Using income from trust assets
- Grantor retained annuity trusts or charitable lead trusts
- Using policy cash values (when appropriate)
- Death of the insured

Background

The SECURE Act

Signed into law on 12/20/2019

Law affects IRAs and defined contribution plans such as 401k(s)

The SECURE Act is a revenue raising provision

$15.7 Billion*
Projected tax revenue from limiting Stretch IRA

*Source: "The SECURE Act and the Retirement Enhancement and Savings Act Tax Proposals (H.R. 1994 and S. 972)" https://fas.org/sgp/crs/misc/IF11174.pdf

Summary of changes to certain provisions

Highlights

RMD

- Required minimum distribution (RMD) = 72 [But Secure Act 2.0 increased this further]
- Old law RMD = 70½

Contributions

Contributions can be made after age 70½

Inherited IRAs

- 10 year rule
- Old law = lifetime Stretch

Client Impact

What does the 10-year rule mean for clients?

- The Stretch-IRA is dead
- Beneficiaries may receive funds much more rapidly than the participant originally intended
  - Examples: Conduit Trust or naming a grandchild as beneficiary
- This causes planning issues for the client and beneficiary:
  - Beneficiary may have spendthrift issues
  - Dramatically reduces the beneficiary's opportunities for income tax deferral
  - Large income-tax bills may be triggered sooner for the beneficiary
  - Beneficiary may be pushed into a higher income tax bracket
- Legacy Planning Conversations About IRAs and QPLANs must change

SECURE 2.0

Highlights

Of note

- Increases RMDs to 73 in 2024 (75 in 2033)
- Increased qualified charitable distributions
- Section 334 – distributions for LTC

Other enhancements

- Rules around matching, catch-up contributions, automatic enrollment. 529 rollover to Roth

Inherited IRAs

- SECURE Act – 2020 rules apply

Goal to increase retirement plan savings and help close the retirement savings gap.

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Why tax diversification is important

Diversify today for retirement tax efficiency

Pre-tax contributions	⟼	**Tax deferred** 401(k) IRA	⟼	Withdrawals may be subject to 100% income tax
After-tax contributions	⟼	**Taxable** • Mutual funds • Stocks • Annuities • Real estate	⟼	Withdrawals may be subject to capital gains, and even ordinary income tax
After-tax contributions	⟼	**Tax advantaged** • Muni bonds • Roth IRA • Life insurance	⟼	Withdrawals can be accessed income tax-free

Diversifying investments can reduce income taxes in retirement.

Client Profiles

Ages 59+

- RMDs not needed for current or future income
- Considering Roth conversion

Retirement Backstop:

- Preserve IRA Assets
- Medical LTC costs

Legacy Focus:

- "Mimic" loss of stretch IRA
- Offset increased income tax liabilities
- Spendthrift beneficiaries

Client Profile #1 – Retirement Backstop

Accumulation phase
Traditional "LIRP" strategies focus on building supplemental retirement income for clients in their 30s to early 50s and illustrate distributions starting at retirement age

Distribution phase
For older clients, a "retirement backstop" option helps address concerns that tend to be more prominent as retirement approaches

- Ages 50-70
- Focus on retirement accumulation
- Potential concerns about longevity and/or LTC/medical costs

Benefits of backstop conversation

- Clients typically in their highest income earning years (just prior to retirement)
- Kids likely out of college and mortgage eliminated/reduced
- More attune to their retirement income needs and where they need protection

Retirement

Understanding the risks

Even if your clients are diligent about saving, there are multiple factors that may diminish their savings more quickly than anticipated, such as:

- Health issues/ needing long-term care
- Outliving retirement assets
- Inflation
- Withdrawal risk
- Sequence of returns risk
- Taxes

Hypothetical example

Allison – Age 45, is married and in good health

- Successful chemist
- Mortgage is paid off and her children are "grown" (ages 18 & 20)

As she approaches retirement she:

- Is concerned about family income if she can no longer work or dies too soon
- Wants to hedge against retirement risks
- Worried about outliving her retirement assets
- Concerned about protecting retirement assets from:
  - the potential costs of long-term care
  - other unexpected income needs
- Decides on annual premium commitment of $20-25K

Allison is diligent about saving for retirement and wants to retire in 15-20 years

Retirement "backstop" option

A permanent life insurance policy can reinforce protections against unplanned retirement risks

A retirement backstop life insurance policy may allow clients to supplement retirement income in later years in addition to these benefits:

- **Income tax-free death benefit**
  To your clients' survivors to provide financial protection
- **Access to tax-free income**
  From the potential cash value that accumulates inside your clients' policies
- **Access to up to 100%**
  Of death benefit income-tax free should your clients need long-term care

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Client Profile #2 – Legacy IRA Max

Ages 59+

- RMDs not needed for current or future income
- Considering Roth conversion

Concerns:

- Preserve IRA Assets
- Medical LTC costs
- Legacy planning (Stretch)

Impact from loss of the stretch

Example: Assume $2M Stretch IRA inherited by 40 y/o @ 5% growth

Pre-SECURE

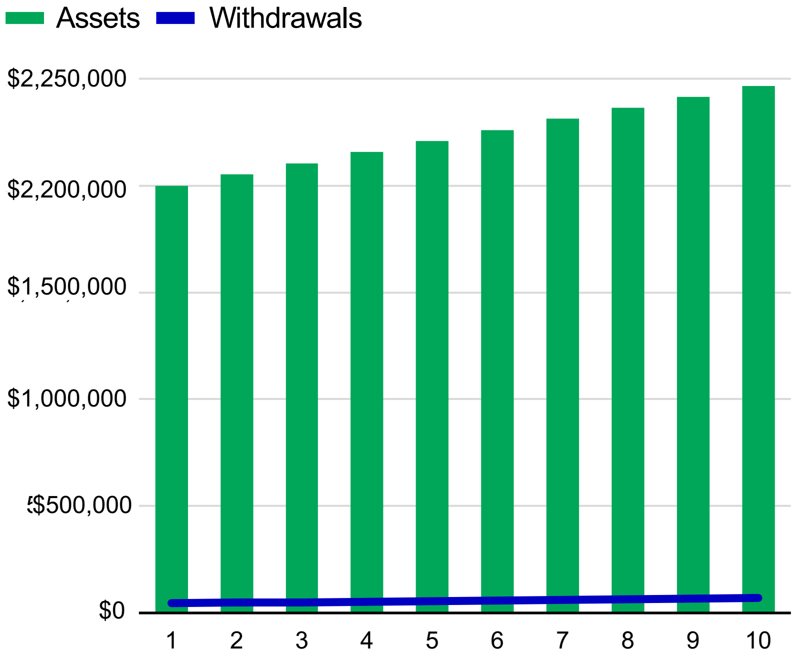
After 10 years there would be 2.25M+ in the tax advantaged account.

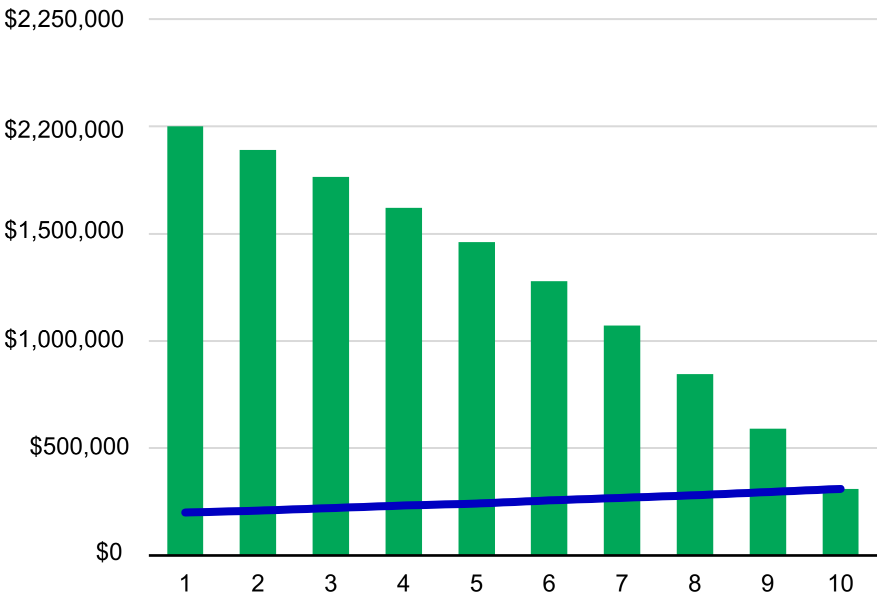
The beneficiary would have taken between 45k and 70k a year in distributions, which is a relatively modest tax burden given the account size.

Post-SECURE

After 10 years the tax advantaged account would be empty.

The beneficiary would have taken out between 200k and 310k a year in distributions, which by itself puts the beneficiary in a 32-35% tax bracket.





This is a hypothetical example for illustrative purposes only.

Life insurance opportunities following the SECURE Act

Increased tax liabilities

- Child inherits IRA when she is in peak earning years and will be for 10+ years - IRA to be taxed at top tax rates (state & federal)
- Accumulation trust named as beneficiary of plan for benefit of grandchildren or spendthrift bene – IRA taxed at top rates due to condensed trust brackets

Insurance proceeds provide liquidity to cover increased tax obligations

Repositioning assets

Surviving spouse inherits IRA, allowing spouse to:

- Delay RMDs until deceased spouse would have turned 73 (if surviving spouse is older)
- Roll-over plan into spouse’s name and take RMD when survivor turns 73
- Convert IRA to Roth

Insurance proceeds provide flexibility to delay RMDs (under option 1 or 2) or cover taxes associated with Roth

Mimic a Stretch

- Leave life insurance proceeds in trust for benefit of children/ grandchildren with lifetime distribution provisions
- Leave IRA to charitable remainder trust (CRT) to simulate a stretch and use life insurance as wealth replacement for remainder interest to charity
- Leave ½ of IRA to surviving spouse and ½ to children to prolong stretch (10+ years) + insurance for liquidity/taxes

Client directs how life insurance proceeds are used – not the IRS

Next steps

The client’s planning team can help the client:

- ✔ Understand relevant provisions of the SECURE Act (1.0 & 2.0)
- ✔ Re-evaluate beneficiary designations and trusts named as beneficiaries of IRAs/QPLANs in light of the SECURE Act
- ✔ Policy review to uncover opportunities to enhance coverage
- ✔ Evaluate whether life insurance should be used as part of the client’s overall planning
- ✔ Client’s legal & tax professionals help the client revise the client’s beneficiary designations and estate planning documents when advisable (including trust modifications)

Questions?

Thank you

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Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration.

Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59 1/2.

Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping tax). Failure to do so could result in adverse tax treatment of trust proceeds. There can be costs associated with drafting a trust.

Insurance policies and/or associated riders and features may not be available in all states. Some riders may have additional fees and expenses associated with them. Refer to the product prospectus for additional information.

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