

Family Wealth Transfer–Annuity Max Strategy

Annuity Maximization

A deferred annuity has two phases: savings and income. Distributions are delayed during the savings phase, when earnings grow tax-deferred. The annuity owner elects when to end the deferral phase and start receiving income from the annuity. Some or all of the income can be used to fund a life insurance policy for the benefit of the heirs.

The Situation

Annabel's husband, Lee, purchased a large deferred annuity years ago, which has grown significantly. Lee has since passed away, and Annabel has sufficient income for her needs. She plans to leave the annuity to her two children upon her death, but her brother suggested Annabel should meet with his advisor to determine if there are better options.

The Solution

The advisor suggested that Annabel establish an Irrevocable Life Insurance Trust (ILIT) and use the deferred annuity to fund a life insurance policy for the benefit of her children. The life insurance death proceeds may provide a significantly higher return than the deferred annuity, and are income tax free and estate tax free when properly structured. Annabel liked the idea of maximizing value to her children and minimizing taxes.

How It Works

Annabel establishes an ILIT, naming her two children as beneficiaries. She annuitizes the deferred annuity. This annuitization will provide Annabel with an income stream, which is partially taxable and partially nontaxable. Annabel uses some or all of the annuity income to make gifts to the ILIT. The trustee uses the income to purchase and fund a life insurance policy on Annabel's life. Upon her death, the life insurance proceeds are paid to the ILIT. The trustee distributes the proceeds according to the terms of the trust.



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