

A Capital Transfer Strategy

Potential problems of clients with large estates are *Estate Taxes* and the *Transfer of Assets*. The particular focus of this strategy relates to Affluent clientele who own Annuities.

People with large estates may have multiple sources of income. If so, it may not be necessary for them to access funds from their annuities. As a result, they can let the money in the annuity grow tax deferred without distribution. This is usually with the intent that they don't want to get taxed on growth and would like to see the money pass to heirs. The potential problem is the minimum distributions and possible penalties that occur at age 70 ½.

A Wealth Transfer Strategy provides a way to pass the maximum amount of money to the heirs outside of the estate and do it *estate tax free*.

By creating an income stream off an annuity you have a funding source for life insurance. The life insurance is owned by a Trust, which is beneficiary to the insurance.

- At death the benefit passes outside the estate
- You accomplish passing a larger piece of clients estate to heirs
- It passes Estate Tax Free and Income Tax Free
- The problems of minimum distributions or penalties with the annuity are avoided, and
- You didn't make Uncle Sam Rich!!!

See next page for diagram of how Wealth Transfer works.
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Using an Annuity

**Client
Annuity**

1 Client Uses an annuity for distribution of assets.

Annuity income

2 Client receives annual income from Annuity.

3b Client Makes Gifts equal to life insurance premium to Trust from after-tax annuity Payment.

3a Client pays income tax on annuity payment.

Trust

4 Life Premiums

Life Insurance

5 Death Benefit

6 Benefit to Heirs:

- * Small annual gift creates a large benefit
- * Death Benefit income and estate Tax-Free
- * Tax deferred growth of cash value

Heirs

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