Tax Offset Strategy

Transferring wealth to loved ones can be a positive life changing event, but it could come with an income tax burden. Helping your clients understand and utilize the **Tax Offset strategy** can minimize the income tax burden to their beneficiaries.

HOW IT WORKS

1. Determine the projected value of your IRA at a point in the future when you might expect to transfer the IRA to your beneficiary.
2. Estimate the income tax your beneficiary will owe if the IRA is inherited as a lump sum at the chosen age.
3. Purchase a life insurance policy in order to offset the amount of taxes your beneficiary would owe. The purchase of the life insurance policy would be done using a portion of the distribution from your IRA.[1]

HERE'S AN EXAMPLE:

John accumulated sufficient assets outside of his IRA and desires to leave a legacy for his daughter, Jane. If John makes his daughter the beneficiary to his IRA alone he may be passing along an inheritance that comes with quite an income tax burden. A more efficient way to transfer his wealth is to utilize a tax offset strategy, which will minimize the burden Jane may feel when she inherits her father's legacy.

Assumptions	Tax Offset Strategy[2]	Results
JOHN Age 65 (Survives to Age 90) **JANE** Age 40 **$1,000,000** IRA Balance **5%** IRA Annual Return Income Tax Rate 30% for John 39% for Jane	**$964,306** Projected IRA Value **$376,079** Estimated Income Tax **$566,000**[3] Life Insurance Policy	**$1,154,227** Jane's Inheritance

The income tax rate is higher for Jane due to her taking the IRA as a lump sum distribution. The distribution will max her tax rate at 39% (this includes state tax in addition to the federal tax rate).

RESULTS:

Jane is named as the beneficiary on both the IRA and the insurance policy. She will then use the death benefit proceeds from the insurance policy to cover the income taxes on the inherited IRA. Life insurance death benefits passed to a beneficiary are income tax-free.

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

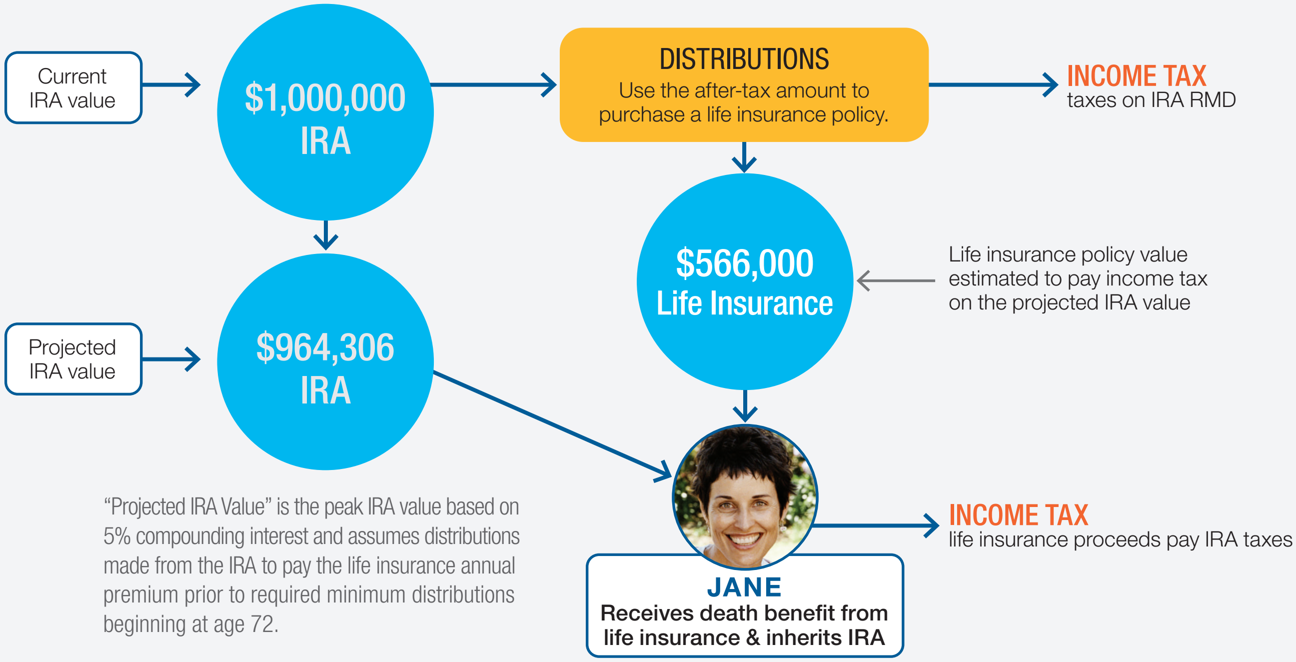
[1] Taking additional withdrawals from the IRA to pay life insurance premiums may not be the best alternative. Whenever life insurance premiums exceed RMDs, an individual should consider paying those premiums from sources other than the IRA.

[2] If death occurs at 90.

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

Additional information on next page.

TAX OFFSET STRATEGY PROCESS:



"Projected IRA Value" is the peak IRA value based on 5% compounding interest and assumes distributions made from the IRA to pay the life insurance annual premium prior to required minimum distributions beginning at age 72.

How does the Tax Offset strategy fit into IRA Maximization?

IRA Maximization is a wealth transfer strategy that allows you to transfer the value of an IRA into a more cost-effective tax arrangement. Also, the strategy can help increase or keep the value of the IRA when transferred to your beneficiaries.

Who can benefit from using the IRA Maximization strategy?

- Someone who doesn't need their IRA assets for their retirement income needs.
- Someone more interested in transferring their assets than generating income.
- Someone wanting to provide a legacy of lifetime income for their loved ones.

For more information, contact your Financial Representative.

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

This material contains statements regarding the tax treatment of certain financial assets and transactions. These statements represent only our current understanding of the law in general and are not to be considered legal or tax advice by purchasers. The tax treatment of life insurance and Individual Retirement Accounts (IRAs) are subject to change. Income, estate, gift, and generation skipping tax rules are subject to change at any time. Neither Protective Life nor its representatives offer legal or tax advice. Purchasers should consult with their legal or tax advisor regarding their individual situations before making any tax-related decisions.

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

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

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