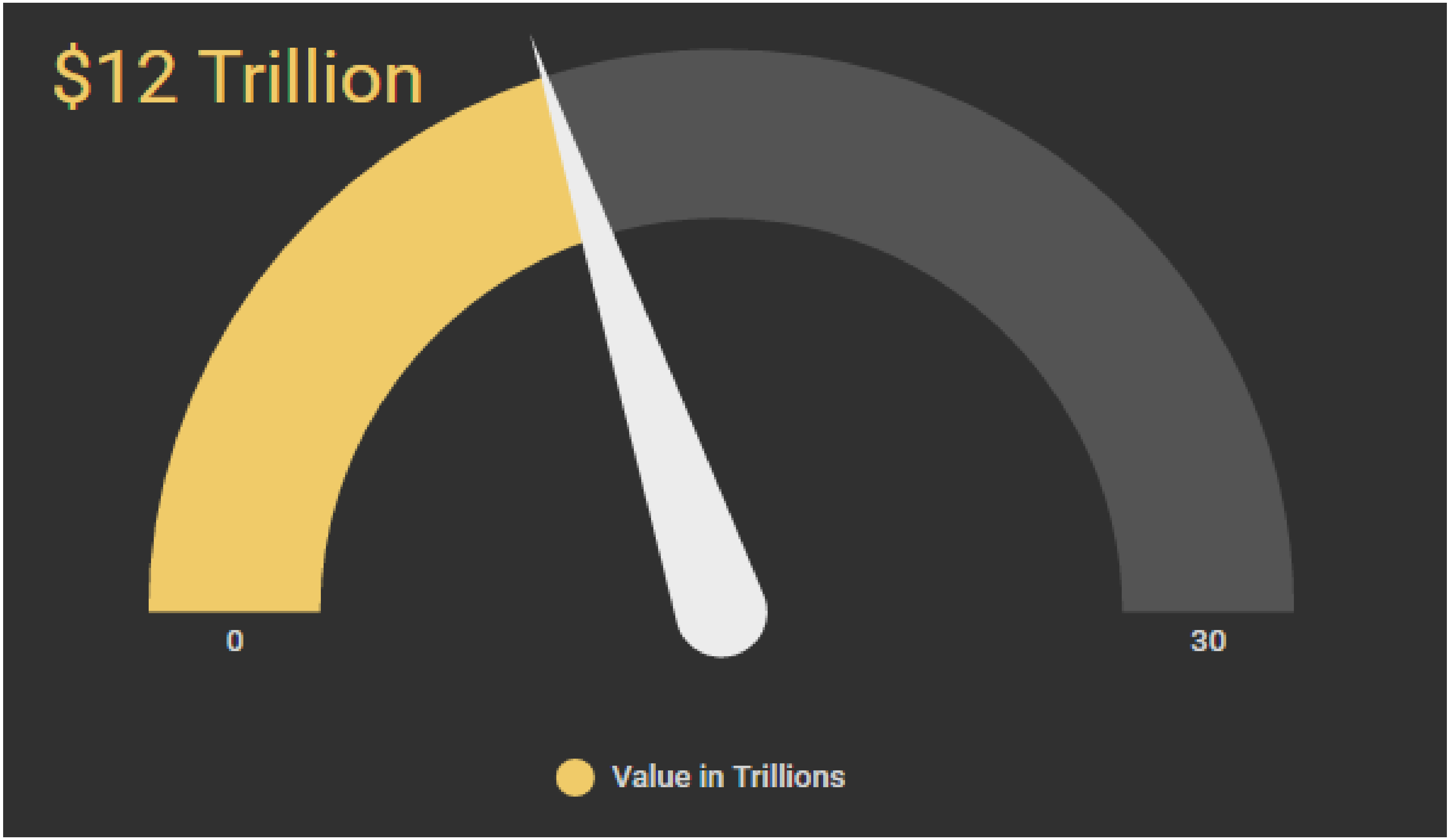
ADDRESSING THE GREAT WEALTH TRANSFER

Jefferson National®

Learning Objectives

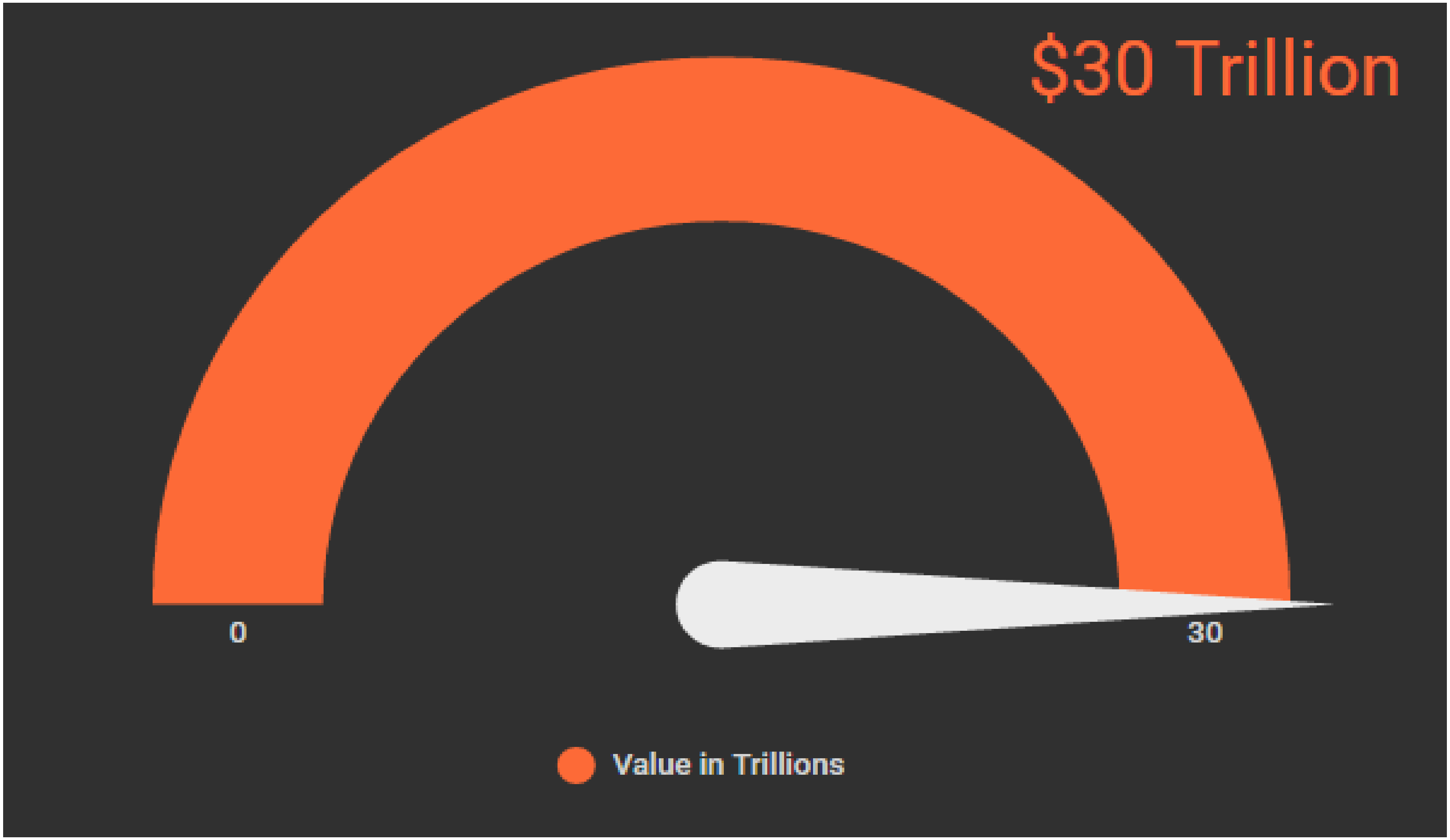
1. The Impact of the Great Wealth Transfer in History
2. Unique Ways to Address the Wealth Transfer Shift with an IOVA
3. Trusts and an IOVA
4. Charity and IOVA
5. Advantages of a Restricted Stretch Provision
6. Involving Other Specialists
7. Next Steps

The Current Wealth Transfer



Source: 2016 Monument Advisor Variable Annuity and the Restricted Stretch https://infogr.am/_/EbHnVSncft4CLzA6bzQN

The Great Wealth Transfer



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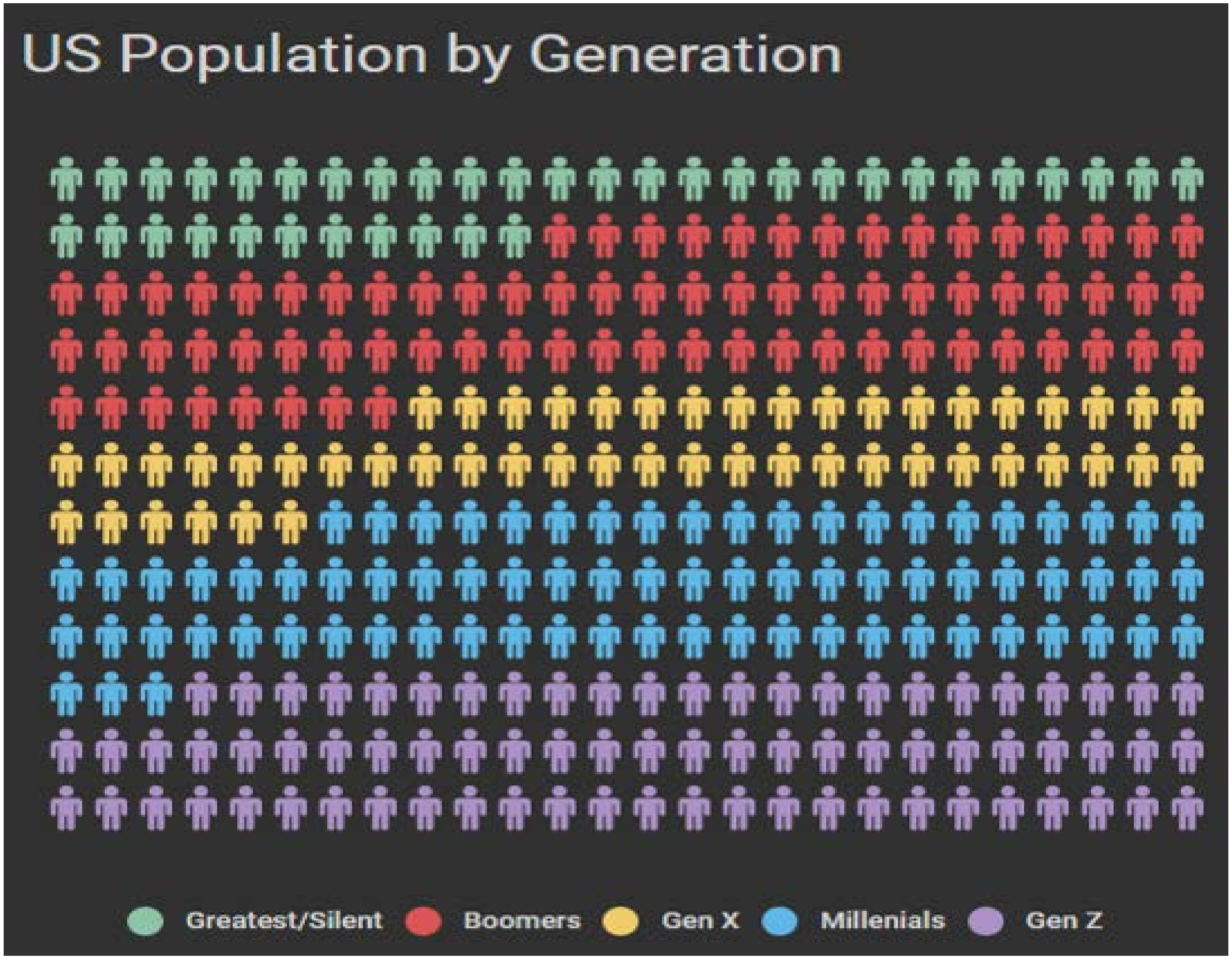
US Population by Generation

Who will handle the great transfer of wealth?



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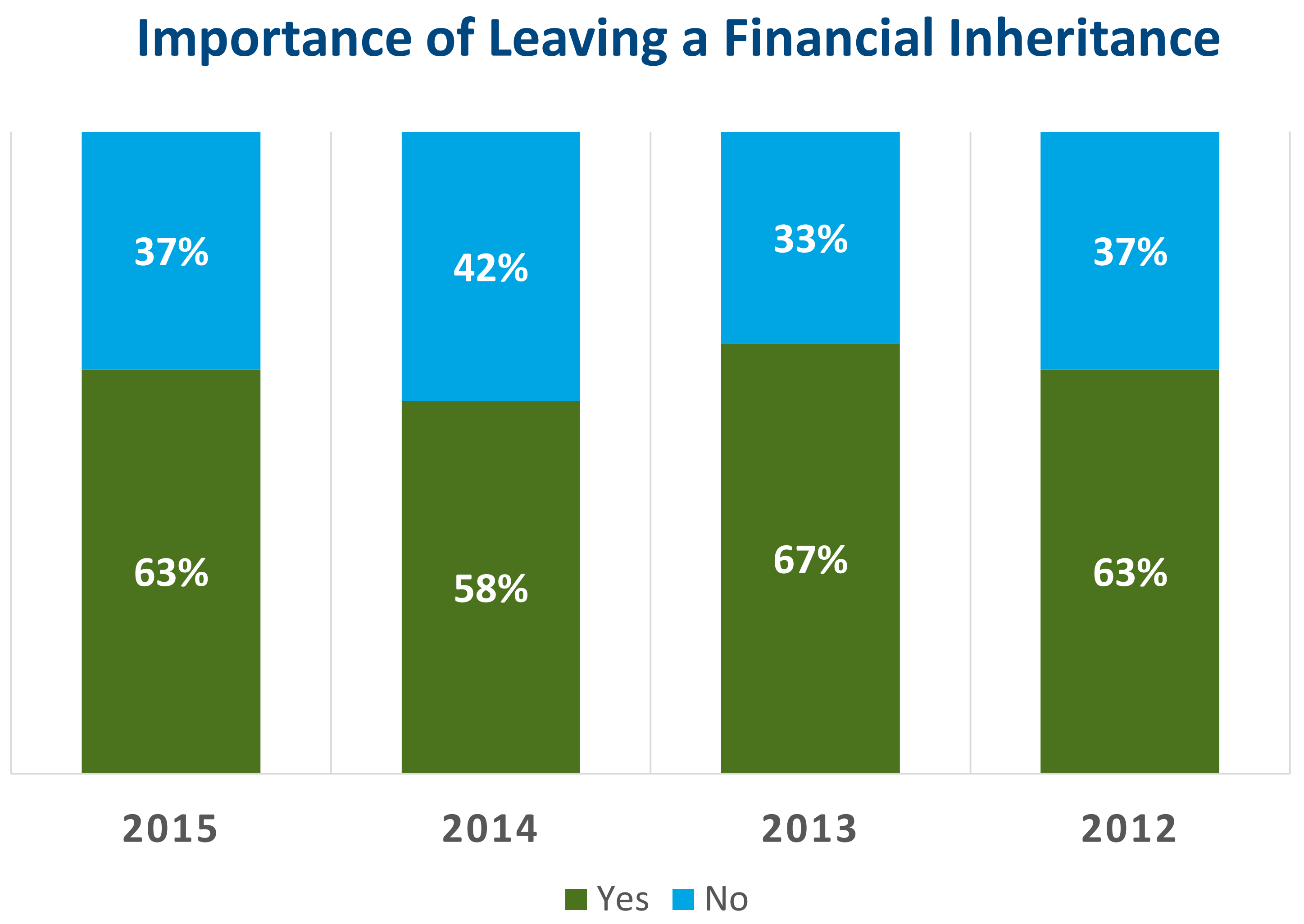
The Great Wealth Transfer Opportunity

"For many financial advisors, this wave represents a <u>business building opportunity</u>. For others, it could imply an impending <u>loss of assets</u>."

- Bill Cass, Putnam Investments

Financial Inheritance



* Source: 2015 U.S. Trust, Insights on Wealth and Worth

Advisor Retention Statistics

Who will handle the greater wealth transfer?

- 55% of surviving spouses **fire** their advisor
- 66% of children **fire** their parent's advisor
- 3% of advisors **ask** to meet client's children

Source: 2016 Monument Advisor Variable Annuity and the Restricted Stretch https://infogr.am/_/EbHnVSncft4CLzA6bzQN

Typical Options to Address Wealth Transfer Needs

- Trusts and an Estate Attorney
- Insurance Provider or Agent
- Accountant or Tax Advisor
- Financial Advisor

The Typical Options and an IOVA

- Trusts
- Charity and IOVA
- Restricted Stretch

Traditional VA vs. Investment Only Variable Annuity

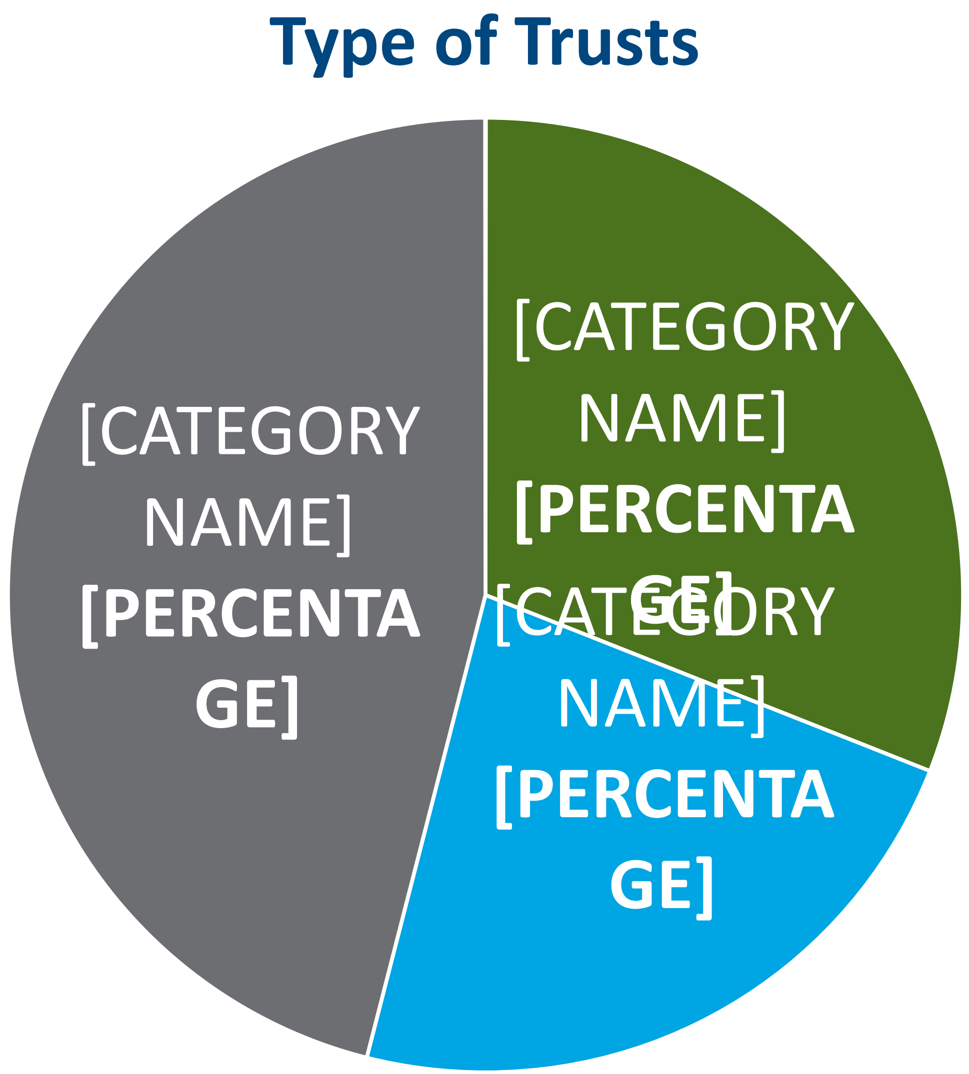
Traditional VA Characteristics:

- Illiquid
- Commission-based
- Insurance Guarantees/Riders
- Limited Investment Options

IOVA Characteristics:

- Simple Fees
- Liquid
- Fee-based
- Few or no Insurance Guarantees/Riders
- Broad Asset Class Investment Options

Wealthy Clients and Trusts



* Source: 2015 U.S. Trust, Insights on Wealth and Worth

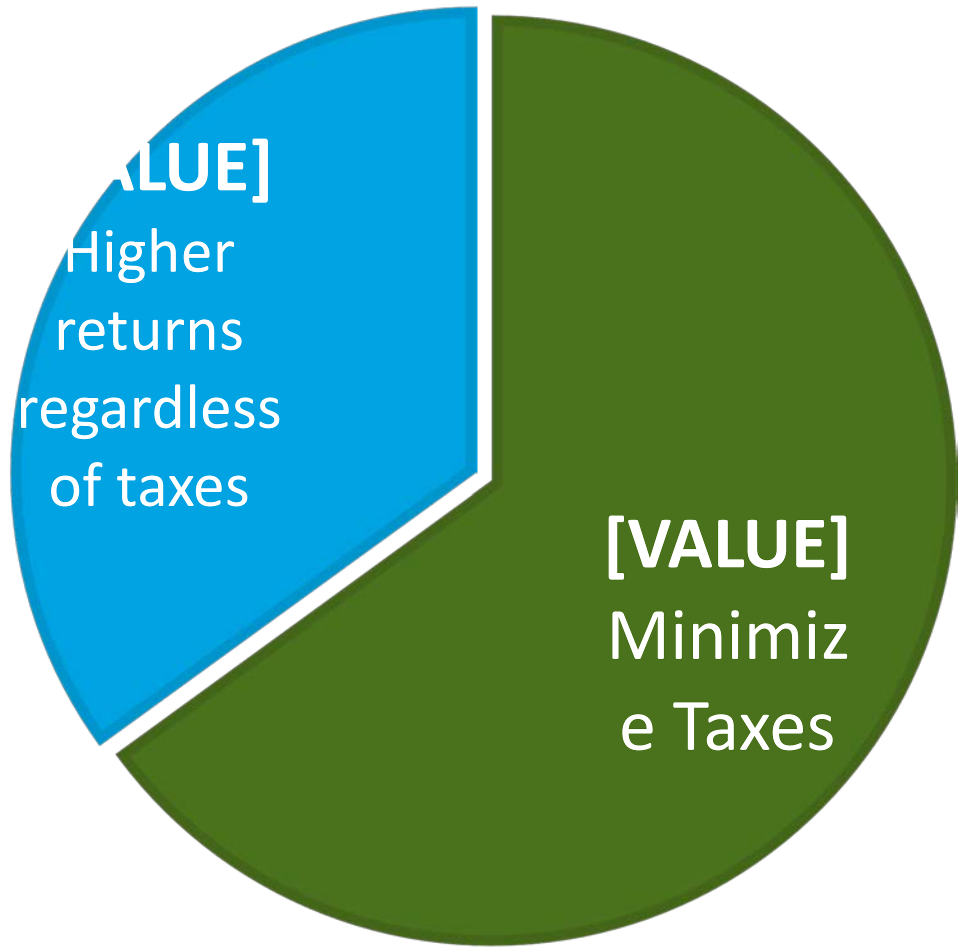
The Benefits of a Trust

- Pass wealth efficiently and privately to heirs
- Preserve assets for heirs and charities
- Gain control over distribution of assets
- Reduce estate taxes

From Fidelity's "Six Reasons You Should Consider a Trust": https://www.fidelity.com/viewpoints/personal-finance/reasons-to-consider-a-trust

Wealthy Clients and the Focus on Minimizing Taxes

Returns and Taxes



* Source: 2015 U.S. Trust, Insights on Wealth and Worth

Family Trust

- **Client:** Mary Watkins
- **Type of Trust:** The Watkins Family Trust
- **Problem:** Mary's income is sufficient and any trust income creates unnecessary tax obligations

IOVA BENEFIT:

- IOVA **minimizes** tax consequences
- IOVA **enables** trustee to control recognition and distribution of income

NIMCRUT

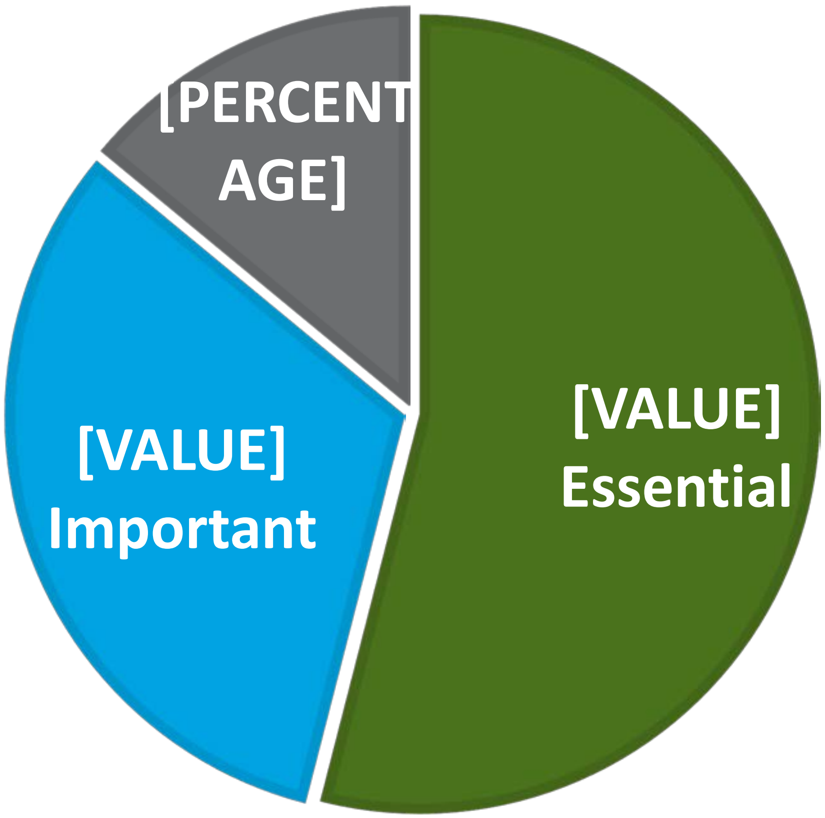
- **Client:** Ellen Smith
- **Type of Trust:** NIMCRUT
- **Problem:** Current income accounting rules stipulate that any income generated is calculated as income in that calendar year. This income includes capital gains, dividends, and interest.

IOVA BENEFIT:

- IOVA **enables** trustee to control recognition of income

Wealthy Clients and Giving Back to Society

Who Considers Giving Back to Society Essential or Important to a Life Well Lived



86% Essential or Important

* Source: 2015 U.S. Trust, Insights on Wealth and Worth

Potential Disadvantages of a CRT

- **Irrevocable**
- **Tax Deduction Limitations**
- **Cost** (estate attorney, tax advisor, trustee administration)

Charity as Beneficiary and an IOVA

- **Simple**
- **Revocable**
- **Flexible Investment Choices**
- **Liquidity**
- **Minimize Taxes**

Restricted Stretch

"Only one in five strongly agrees that their children will be well prepared to handle family wealth they are likely to inherit."

- Trust Insights on Wealth and Worth

* Source: 2015 U.S. Trust, Insights on Wealth and Worth

Death Benefit Options

- Lump Sum
- Five Year Payout
- Annuitization
- Nonqualified Stretch
- **Restricted Stretch**

Traditional VA vs. **I**nvestment **O**nly **V**ariable **A**nnuity

Traditional VA Characteristics:

- Illiquid
- Commission-based
- Insurance Guarantees/Riders
- Limited Investment Options
- **Forced Annuitization**

IOVA Characteristics:

- Simple Fees
- Liquid
- Fee-based
- Few or no Insurance Guarantees/Riders
- Broad Asset Class Investment Options
- **Virtual Lifetime Tax Deferral**

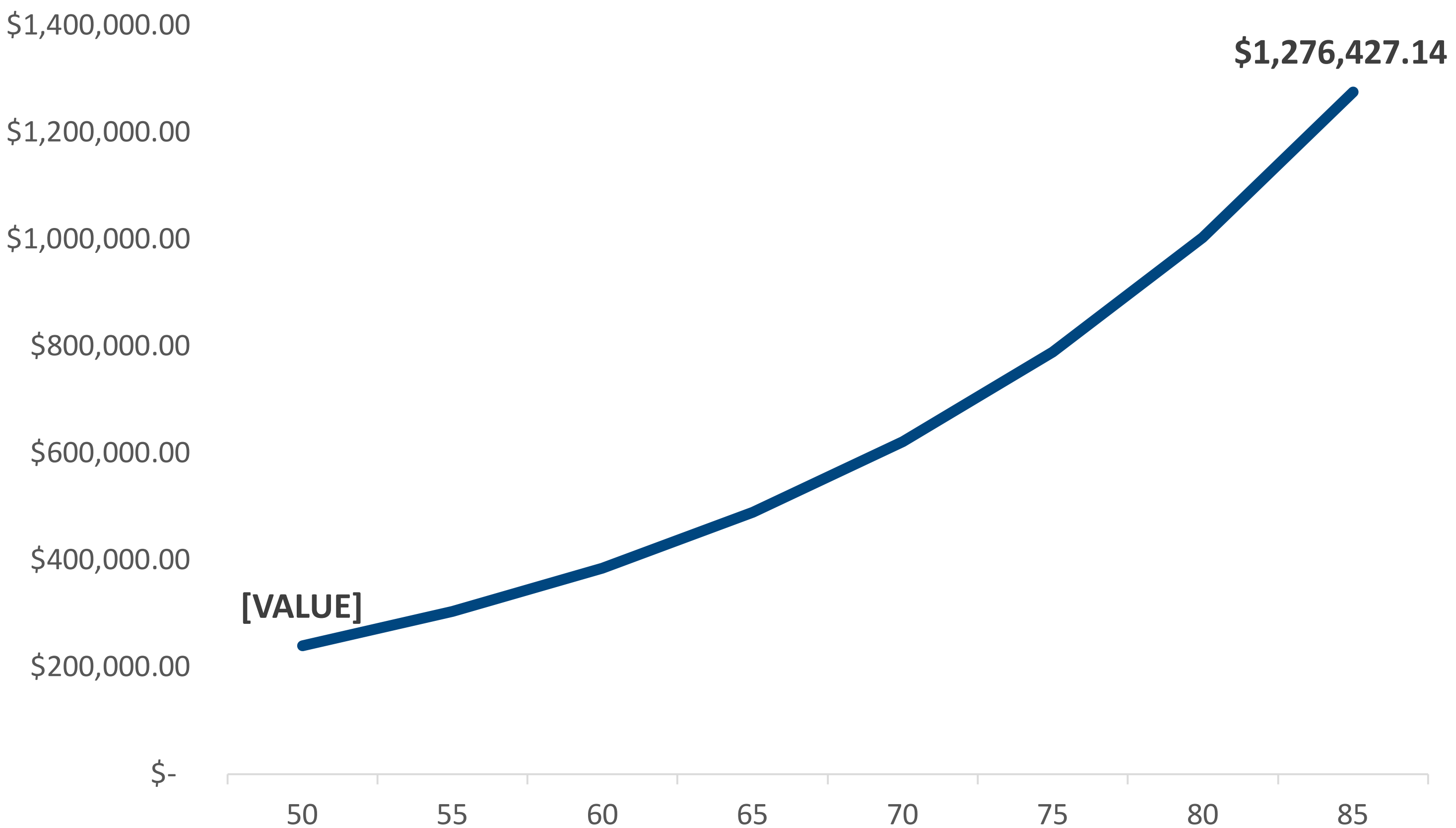
Restricted Stretch – Case Study

- **Client:** Dan
- **Current Age:** 50
- **Story:**
  - Wants to leave legacy for Grandson, Neil
  - Advisor recommends IOVA
  - Invests **$240,000**

Restricted Stretch – **Dan**

- **Assumptions:** 6% growth
- **Planning Horizon Age:** 85

Accumulation at Death: $1,276,427



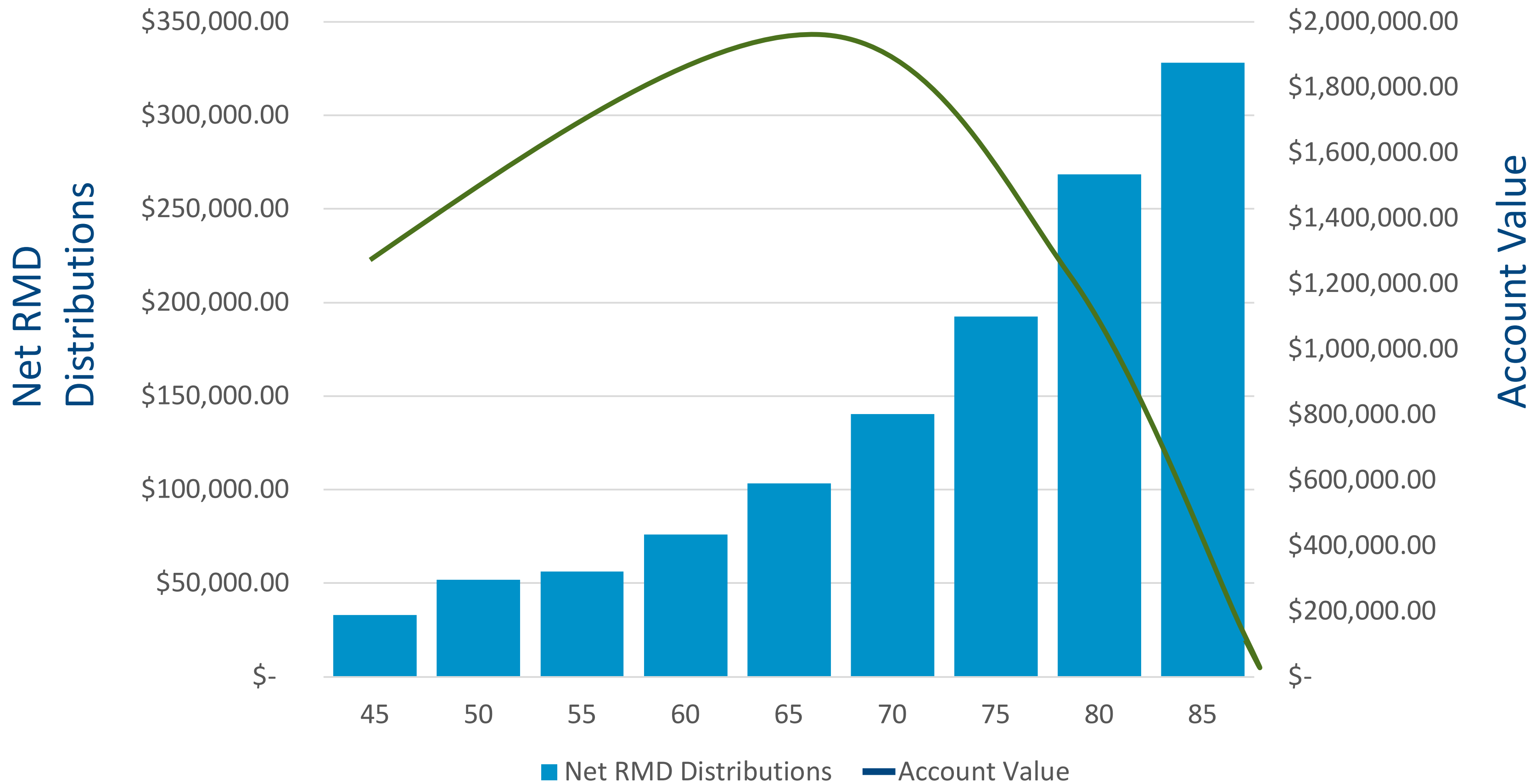
Hypothetical example for illustrative purposes only. This illustration shows accumulation over a 35-year time period with no additional contributions or withdrawals. Projection is based on an assumed annual growth rate of 6%. The illustration includes Monument Advisor's $240 annual fee, and takes into account a 1% advisory fee. It does not factor in underlying fund expenses.

Restricted Stretch – **Neil**

- **Client:** Neil
- **Age:** 45 years old
- **Story:**
  - Receives $1.3M inheritance from Grandfather

Restricted Stretch – **Neil**

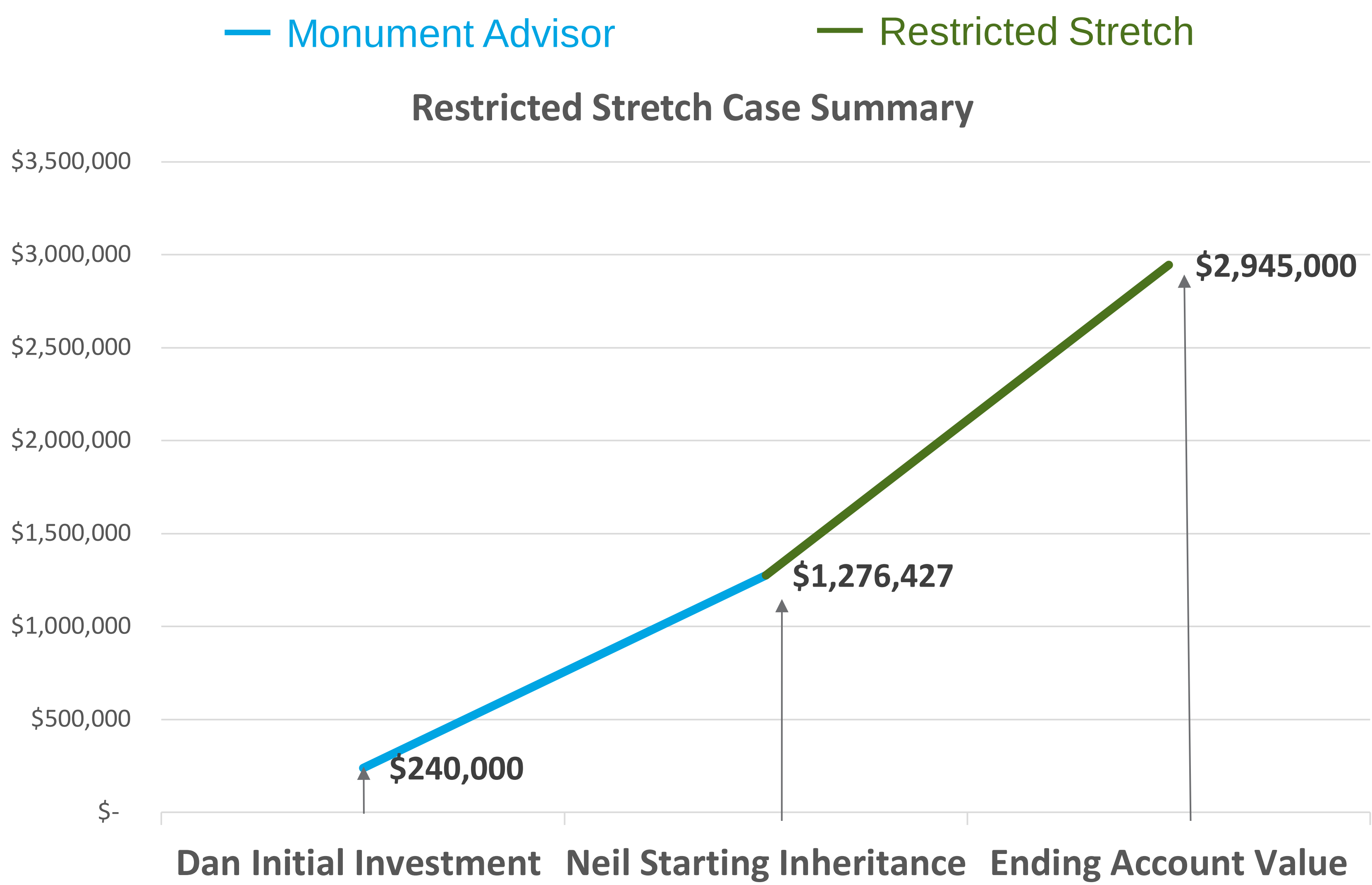
- **Average Post-Tax Annual Income:** $76,000*
- **Total New Distributions:** $2,945,000



Hypothetical example for illustrative purposes only. This illustration shows accumulation over a 40-year time period with no additional contributions or withdrawals. Projection is based on an assumed annual growth rate of 6%. The illustration includes Monument Advisor's $240 annual fee, and takes into account a 1% advisory fee. It does not factor in underlying fund expenses.

*Hypothetical post tax income represents one year only. Corresponding years could be different depending on market performance.

Restricted Stretch – Case Study Summary



Hypothetical example for illustrative purposes only. This illustration shows accumulation over a 75-year time period with no additional contributions. RMDs are included from year 36 to 70. Projection is based on an assumed annual growth rate of 6%. The illustration includes Monument Advisor's $240 annual fee, and takes into account a 1% advisory fee. It does not factor in underlying fund expenses.

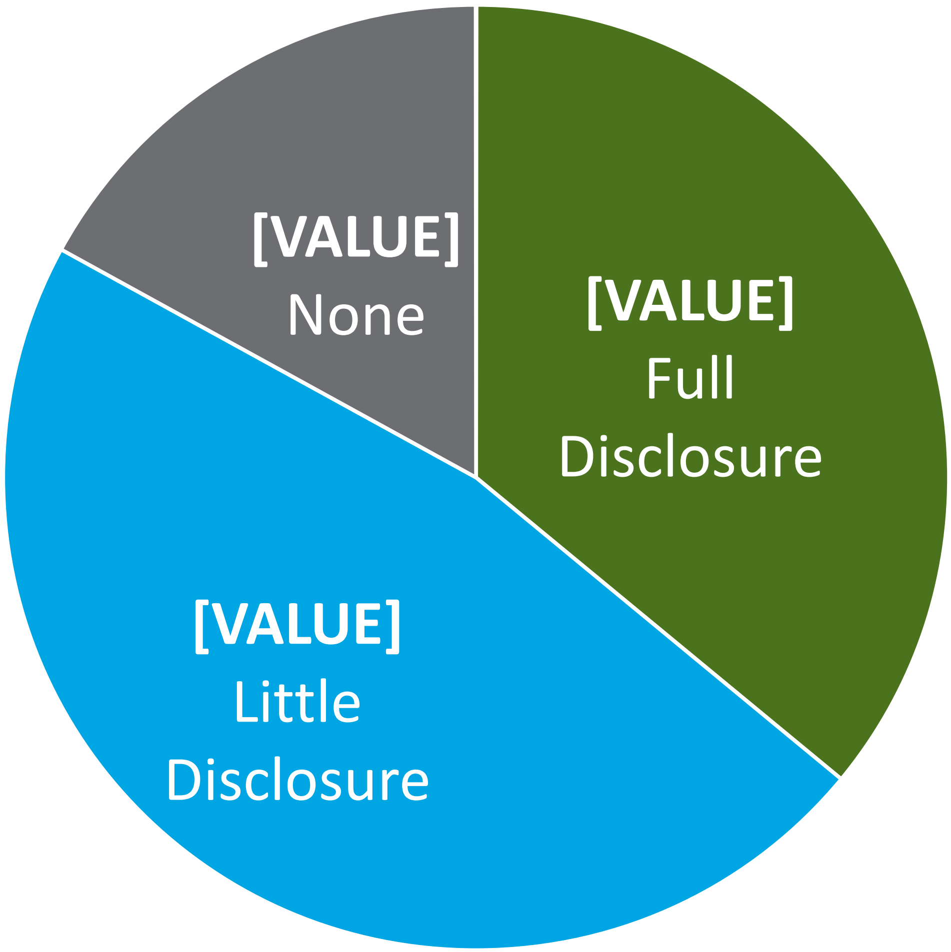
Advantages of Restricted Stretch

- **Manage** taxes
- **Control** wealth distribution
- **Create** “synthetic pension”
- **Continue** tax-deferred growth

Disclosure: Stretching is suitable for beneficiaries who do not have immediate need of the assets. As with all securities, there are risks associated with stretching, such as changes to tax laws and the impact of inflation.

Clients and Clients' Children

Extent of Parent/Child Disclosure

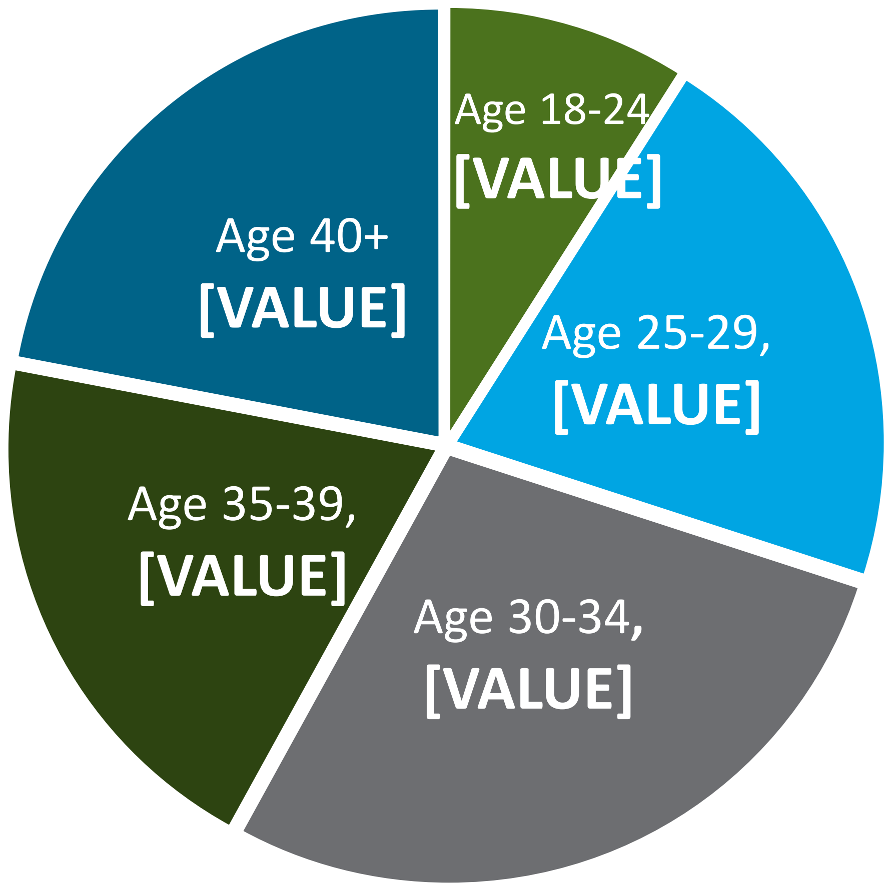


* Source: 2015 U.S. Trust, Insights on Wealth and Worth

Clients and Clients' Children

Age at Which Parents Think Children Will Reach Maturity Necessary to Handle Family Wealth

(among all parents)

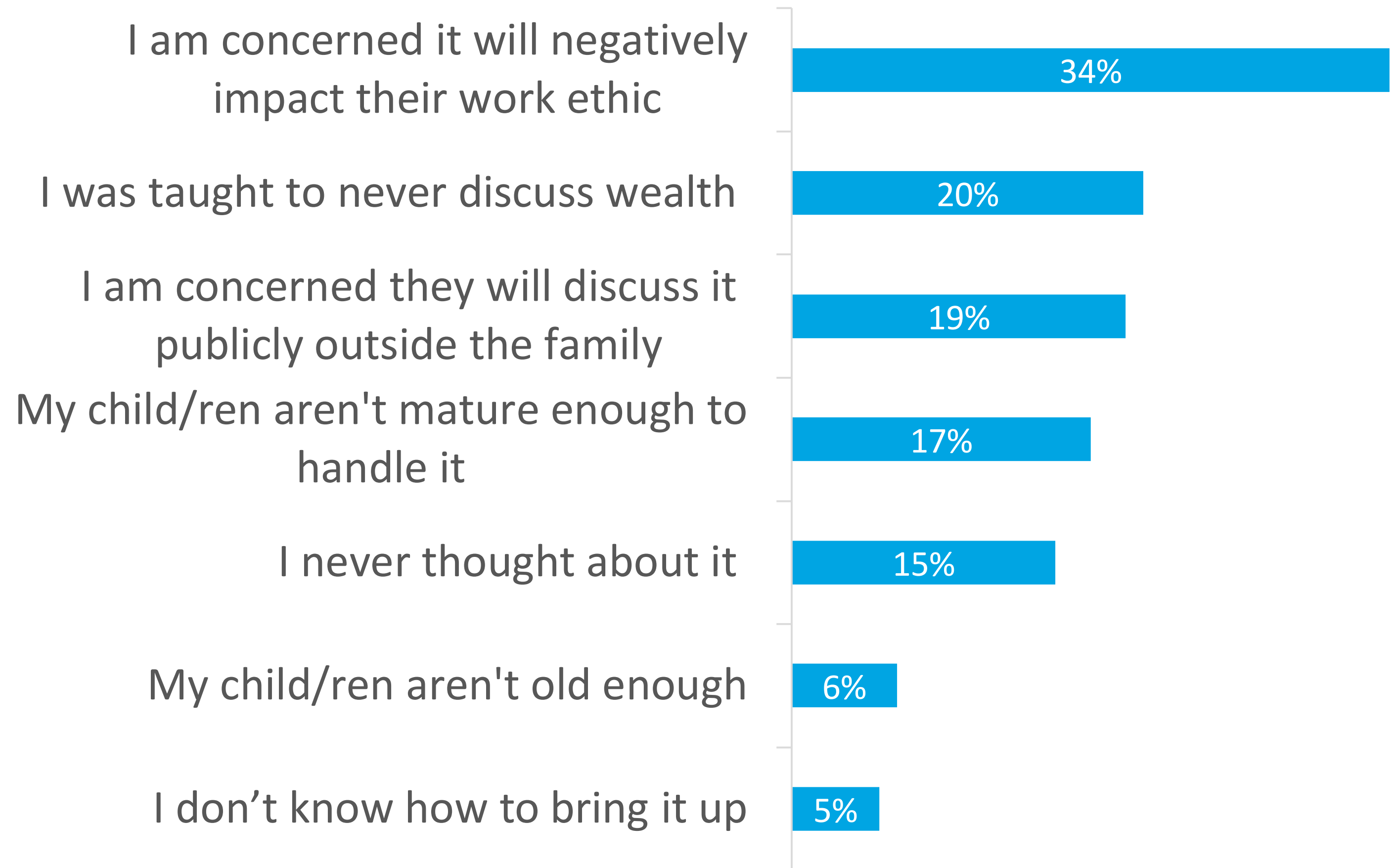


* Source: 2015 U.S. Trust, Insights on Wealth and Worth

Clients and Clients' Children

Reasons Parents Have Not Fully Disclosed Level of Wealth

(among parents who have disclosed nothing or little)



3% of advisors <u>ask</u> to meet client's children

* Source: 2015 U.S. Trust, Insights on Wealth and Worth

NEXT STEPS

1. **Survey** existing clients with trust assets
2. **Explore** clients with existing annuities that might benefit from naming a charity as beneficiary
3. **Educate** clients on annuity death benefit options and the restricted stretch
4. **Discuss** wealth transfer solutions and an IOVA with attorneys and tax advisors
5. **Prepare** the future of your business by bridging conversations between clients and their heirs now
6. **Consult** with Jefferson National

The Greater Wealth Transfer Opportunity

"For many financial advisors, this wave represents a <u>business building opportunity</u>. For others, it could imply an impending <u>loss of assets</u>."

- Bill Cass, Putnam Investments

Q&A

REGULATION DISCLOSURES OF ANNUITY OWNERSHIP BY TRUSTS

- Limitations on non-natural persons was part of the Tax Reform Act of 1986
- Intended by Congress to curb perceived abuses, primarily by corporations, of the income tax-free treatment of the interest accumulating in an annuity contract
- Congressional intent was not to prevent the use of trust ownership of annuities in non-corporate situations Private Ruling Letters – Provide Confirmation
- PLRs 9120024, 9204014, 9322011, 9639057, 9752035, 199905015, 199933033, and 200449017 , 200449011, 200018046
  - all reviewed situations where various types of trusts would own an annuity and all the beneficiaries of the trust were natural persons
- PLRs 9204010 & 9204014
  - trust had discretion to pay income and corpus to beneficiary until age 40 at which the entire trust would be distributed to beneficiary
- PLRs 200449011, 200449013, 200449014, 200449015, 200449016 and 200449017
  - trust purchased an annuity contract for the sole benefit of the grantor's grandchild
- PLR 9316018
  - when a grantor trust owns an annuity, the contract retains tax-deferral status by virtue of the grantor trust treatment alone
- PLR199933033
  - irrevocable trust where grantors contribution is used to buy an annuity

REGULATION OF CRTs AND TAX DEFERRAL

Charitable Reminder Trusts (CRTs)

A Charitable Remainder Trust is established for the benefit of a charity—not for a natural person. But The IRS has ruled this an exception as follows:

- In PLR 9009047, the IRS ruled that a charitable remainder trust (CRT) was a non-natural person for purposes of Section 72(u), but could hold an annuity without affecting its qualification as a charitable remainder unitrust under section 664(d)(2) of the Internal Revenue Code and the applicable regulations.
- Since a CRT is already Tax exempt, 72(u) is irrelevant and continuing qualification under IRC 664(d)(2) is the important factor.
- TAM 9825001 - IRS issued a technical advice memorandum in which it held that an annuity purchase by a NIMCRUT was not an act of self-dealing nor would it affect the trust's status as a CRT
- A CRT may consider an annuity for reasons related to guarantees, rider benefits, and especially income accounting rules.

DISCLOSURES

Variable annuities are subject to market fluctuation and risk. Principal value and investment returns will fluctuate and you may have a gain or loss when money is withdrawn.

Variable annuities are long-term investments to help you meet retirement and other long-range goals. Withdrawals of tax-deferred accumulations are subject to ordinary income tax. Withdrawals made prior to age 59 1⁄2 may incur a 10% IRS tax penalty.

Variable Annuities are issued by Jefferson National Life Insurance Company, (Dallas, TX), or Jefferson National Life Insurance Company of New York (New York, NY) and distributed by ***Jefferson National Securities Corporation,*** *FINRA member. Policy series JNL-2300-1, JNL-2300-2, JNL-2300-3, JNL-2300-1-NY.*

Contact Info

Ross McGoodwin

Territory Manager

502-515-7823

rmcgoodwin@jeffnat.com