ADDRESSING THE GREAT WEALTH TRANSFER
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/_/EbHnVScf4CLzA6bzQN
The Great Wealth Transfer

Source: 2016 Monument Advisor Variable Annuity and the Restricted Stretch https://infogr.am/_/EbHnV5ncft4CLzA6bzQN
US Population by Generation

*Who will handle the great transfer of wealth?*

Source: 2016 Monument Advisor Variable Annuity and the Restricted Stretch [https://infogr.am/_/EbHnVSncft4CLzA6bzQN](https://infogr.am/_/EbHnVSncft4CLzA6bzQN)
The Great Wealth Transfer Opportunity

“For many financial advisors, this wave represents a business building opportunity. For others, it could imply an impending loss of assets.”

- Bill Cass, Putnam Investments
Importance of Leaving a Financial Inheritance

<table>
<thead>
<tr>
<th>Year</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>63%</td>
<td>37%</td>
</tr>
<tr>
<td>2014</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>2013</td>
<td>67%</td>
<td>33%</td>
</tr>
<tr>
<td>2012</td>
<td>63%</td>
<td>37%</td>
</tr>
</tbody>
</table>

* 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

<table>
<thead>
<tr>
<th>Traditional VA Characteristics:</th>
<th>IOVA Characteristics:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiquid</td>
<td>Simple Fees</td>
</tr>
<tr>
<td>Commission-based</td>
<td>Liquid</td>
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<tr>
<td>Insurance Guarantees/Riders</td>
<td>Fee-based</td>
</tr>
<tr>
<td>Limited Investment Options</td>
<td>Few or no Insurance</td>
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<tr>
<td></td>
<td>Guarantees/Riders</td>
</tr>
<tr>
<td></td>
<td>Broad Asset Class Investment Options</td>
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</tbody>
</table>
Wealthy Clients and Trusts

Type of 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

[VALUE]
Minimizing Taxes

[VALUE]
Higher returns regardless of 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

* 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
“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
- Annuity
- Nonqualified Stretch
- Restricted Stretch
**Traditional VA vs. Investment Only Variable Annuity**

**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**
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

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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.
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

- [VALUE] Full Disclosure
- [VALUE] Little Disclosure
- [VALUE] None

* 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)

- Age 18-24, [VALUE]
- Age 25-29, [VALUE]
- Age 30-34, [VALUE]
- Age 35-39, [VALUE]
- Age 40+, [VALUE]

* 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)

- I am concerned it will negatively impact their work ethic: 34%
- I was taught to never discuss wealth: 20%
- I am concerned they will discuss it publicly outside the family: 19%
- My child/ren aren't mature enough to handle it: 17%
- I never thought about it: 15%
- My child/ren aren't old enough: 6%
- I don’t know how to bring it up: 5%

3% of advisors ask 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
“For many financial advisors, this wave represents a business building opportunity. For others, it could imply an impending loss of assets.”

- 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
• PLR 9316018
  • when a grantor trust owns an annuity, the contract retains tax-deferral status by virtue of the grantor trust treatment alone
• PLR 199933033
  • 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.

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