



USING YOUR ANNUITY TO PURCHASE LIFE INSURANCE

Four Reasons Why It Makes Sense

Over the years many Americans have purchased deferred annuities to help them with their retirement savings. A few of the reasons why annuities have been such a popular form of retirement savings is their ability to offer tax-deferred growth and guaranteed income for life.

The owner of an annuity is not required to take annual withdrawals once reaching a certain age, unlike with an IRA and other types of qualified retirement accounts. Therefore, those who are fortunate enough not to need their annuity during retirement may simply choose to let the annuity grow tax-deferred, with eventual goal of passing the entire amount to their loved ones.

While that might sound like a good idea initially, in reality a tax-deferred annuity can be a potentially troubling asset to own from a tax perspective. The good news is that with the right strategy you can use your annuity assets to pass on an even greater legacy to loved ones.

Reason 1

Double Taxation of your Annuity Assets

Under current tax law, an annuity is subject to estate taxes upon death of the owner. In addition to the estate taxes on your annuity, your beneficiaries will have to pay federal income taxes on any earnings from the annuity when they are paid out. Because of this potential “double taxation,” an annuity is not the most tax-efficient way to pass on wealth to your loved ones.

Reason 2

Provide Loved Ones with a More Tax-Efficient Inheritance

Life insurance will provide your loved ones with a federal income tax-free death benefit, unlike the annuity that is subject to ordinary income taxation and estate taxes.

Reason 3

Lessen Your Estate Taxes

Taking withdrawals from your annuity to purchase life insurance can lower your potential estate taxes in two ways. You can reduce the amount of estate taxes due as a result of lowering your annuity cash value. Secondly, with the proper planning you can position the life insurance policy so that it will not be subject to estate taxes.

Reason 4

Maximize Assets to Create an Even Greater Legacy for Loved Ones

Annuity withdrawals you make, although subject to income tax, give you the ability to purchase a significant amount of death benefit coverage with dollars that will not be subject to estate tax. With this strategy and life insurance, your annuity can be used to provide loved ones with a meaningful legacy for just pennies on the dollar.

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