



# THE ANNUITY MAXIMIZATION STRATEGY

## Strategy Summary

### For those with substantial deferred annuity balances wanting to maximize the estate they pass on to their loved ones

#### What is the Annuity Maximization Strategy?

- A strategy designed to increase the amount of wealth passed on to beneficiaries through the purchase of life insurance funded by withdrawals from a deferred annuity
- Withdrawals from an annuity are used to purchase a life insurance policy on the life/lives of the annuity owner(s)
  - Funds withdrawn from the annuity can either be gifted to a third party or to an irrevocable life insurance trust, or ILIT, before the life policy is bought to ensure that the death benefit from the policy is not included in the annuity owner's estate
  - The funds are then used to purchase a life insurance policy

#### Who is a good candidate for the Annuity Maximization Strategy?

- Individuals with large balances in deferred annuities
- Retirees who do not need the income from or assets in their annuities
- Those who are interested in creating a significant legacy for the next generation

#### Why adopt the Annuity Maximization Strategy?

- Annuities are designed to provide retirement income, and not to transfer wealth
- Due to the possibility of "double taxation," the amount of wealth passed on from an annuity can be significantly reduced

- Beneficiaries pay ordinary income tax on all inherited annuity gains when received from the annuities
- Annuities may also be subject to estate taxes upon death of the annuity owner
- With the use of life insurance and proper planning, beneficiaries can receive a federal estate tax and income tax-free death benefit that can be used to pay these taxes

#### Example: Leah Legacy

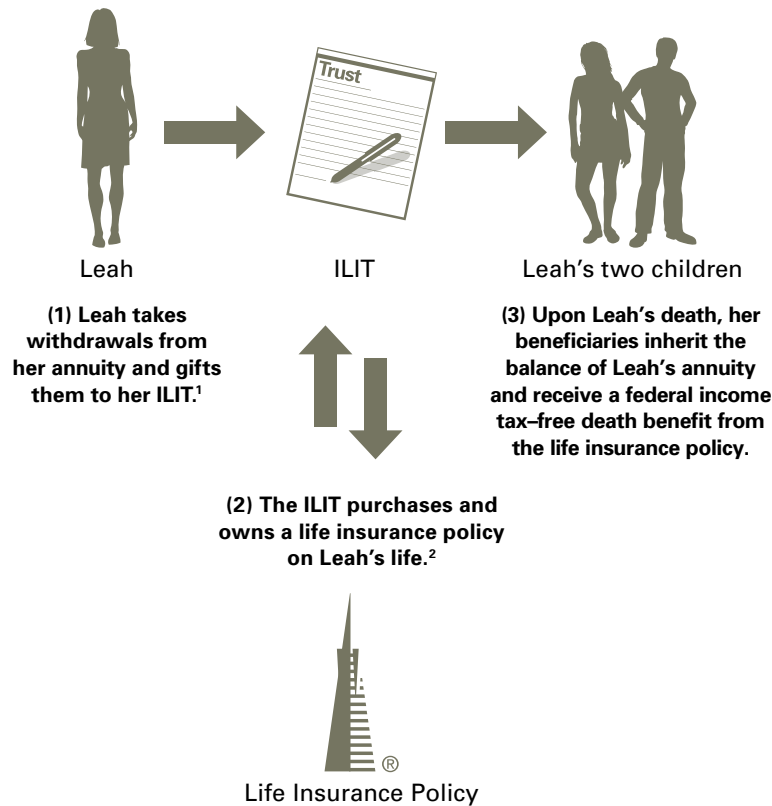
##### Facts:

- Leah, aged 65, is retired and has sufficient assets outside of her annuity to provide for her retirement income needs.
- Leah owns a deferred annuity worth \$800,000, with an original cost basis of \$400,000 that her investment advisor estimates is growing annually at an estimated 6% rate of return.
- Leah's annuity beneficiaries are her two children.
- Her current estate value is \$3.5 million, and Leah's accountant projects it is growing annually at a 4% rate of return.
- Leah's current federal income tax bracket is 28%, and the current federal estate tax bracket is 45%.

##### Goals and Objectives:

- Leah wants to maximize the inheritance she passes on to her two children.
- She would also like to provide a source of liquid assets to help her beneficiaries pay any estate taxes that may arise.
- Finally, Leah wants to minimize the potential estate taxes attributable to her annuity.

## Here's how the Annuity Maximization Strategy works:



**This material was not intended or written to be used, and cannot be used, to avoid penalties imposed under the Internal Revenue Code. This material was written to support the promotion or marketing of the products, services, and/or concepts addressed in this material. Anyone to whom this material is promoted, marketed, or recommended should be urged to consult with and rely solely on their own independent advisors regarding their particular situation and the concepts presented here.**

Transamerica Insurance & Investment Group ("Transamerica") and its representatives do not give tax or legal advice. This material and the concepts presented here are provided for informational purposes only and should not be construed as tax or legal advice.

Discussions of the various planning strategies and issues are based on our understanding of the applicable federal income, gift, and estate tax laws in effect at the time of publication. However, these laws are subject to interpretation and change, and there is no guarantee that the relevant tax authorities will accept Transamerica's interpretations. Additionally, the information presented here does not consider the impact of applicable state laws upon clients and prospects.

Although care is taken in preparing this material and presenting it accurately, Transamerica disclaims any express or implied warranty as to the accuracy of any material contained herein and any liability with respect to it. This information is current as of April 2009.

TransACE<sup>®</sup> is a nonparticipating, flexible-premium universal life insurance policy issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499. Policy Form #1-12611107 (CVAT), Group Certificate #2-72336107 (CVAT) for certificates issued under a group policy issued to the Rhode Island National Consumer Protection Trust. Policy form and number may vary, and this policy may not be available in all jurisdictions.

Transamerica Financial Life Insurance Company is authorized to conduct business in New York. Transamerica Life Insurance Company (or other company name) is authorized to conduct business in all other states.

### Life insurance products:

- Are not insured by FDIC or any federal government agency
- May lose value
- Are not a deposit of or guaranteed by any bank

**To find out more about this and other life insurance planning strategies, please contact us:**

### Policy Summary

▪ Beginning Annuity Balance	\$800,000
▪ Cost Basis	\$400,000
▪ Assumed Growth Rate	6%
▪ Leah's Age at Death	85
▪ Estate Tax Attributable to Annuity	\$1,154,567
▪ Life Insurance Policy	TransACE <sup>®</sup>
▪ Annual Premiums	\$35,748
▪ Death Benefit	\$2,112,000
▪ Remaining Value in Annuity at Leah's Death	\$1,077,619

<sup>1</sup> Gift taxes may also be due when making gifts to an ILIT. In addition withdrawals from annuity are subject to ordinary income tax.

<sup>2</sup> Trust language cannot mandate that trust assets be used to purchase a life insurance policy.



Transamerica Life Insurance Company  
Transamerica Financial Life Insurance Company