You Inherited An IRA… Now What?

Presented By: Chad Bachorowski – Regional Vice President

Crump

January 1, 2020: *The SECURE Act*

"The most sweeping retirement legislation in a long time"

Changes specific to IRAs:

- You can contribute to an IRA beyond age 70½ *(must have earned income)*
- RMD's moved from age 70½ to age 72 *(if you turn age 70½ in 2020 or later)*
- Inherited IRAs must be fully distributed within 10 years *(some exceptions apply)*
  - ✓ Includes inherited Roth IRAs *(no tax on the Roth distributions)*
  - ✓ No more "***stretching***" over beneficiary's life expectancy *(some exceptions apply)*

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Projected Value

5.25% projected growth; 40% projected tax in year 10

This scenario is completely hypothetical and is not intended to represent any particular situation or IRA.

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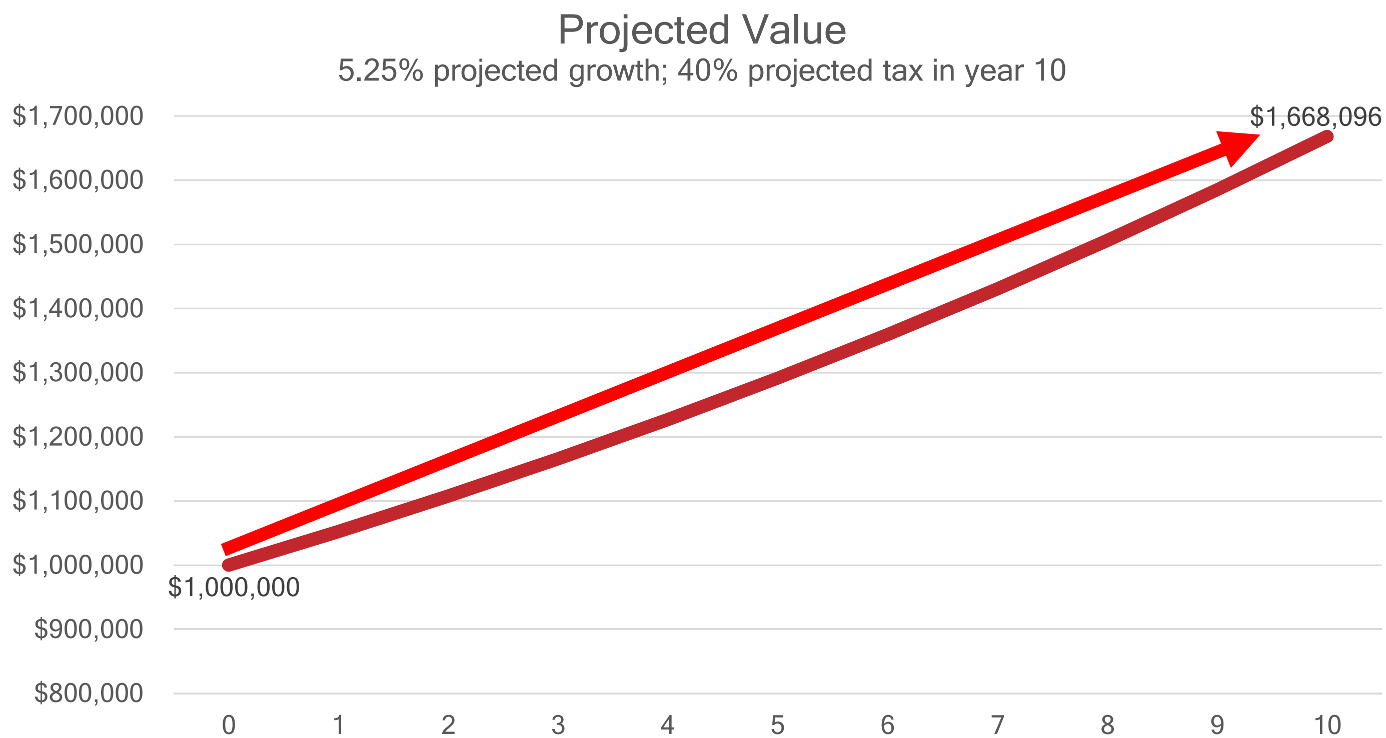

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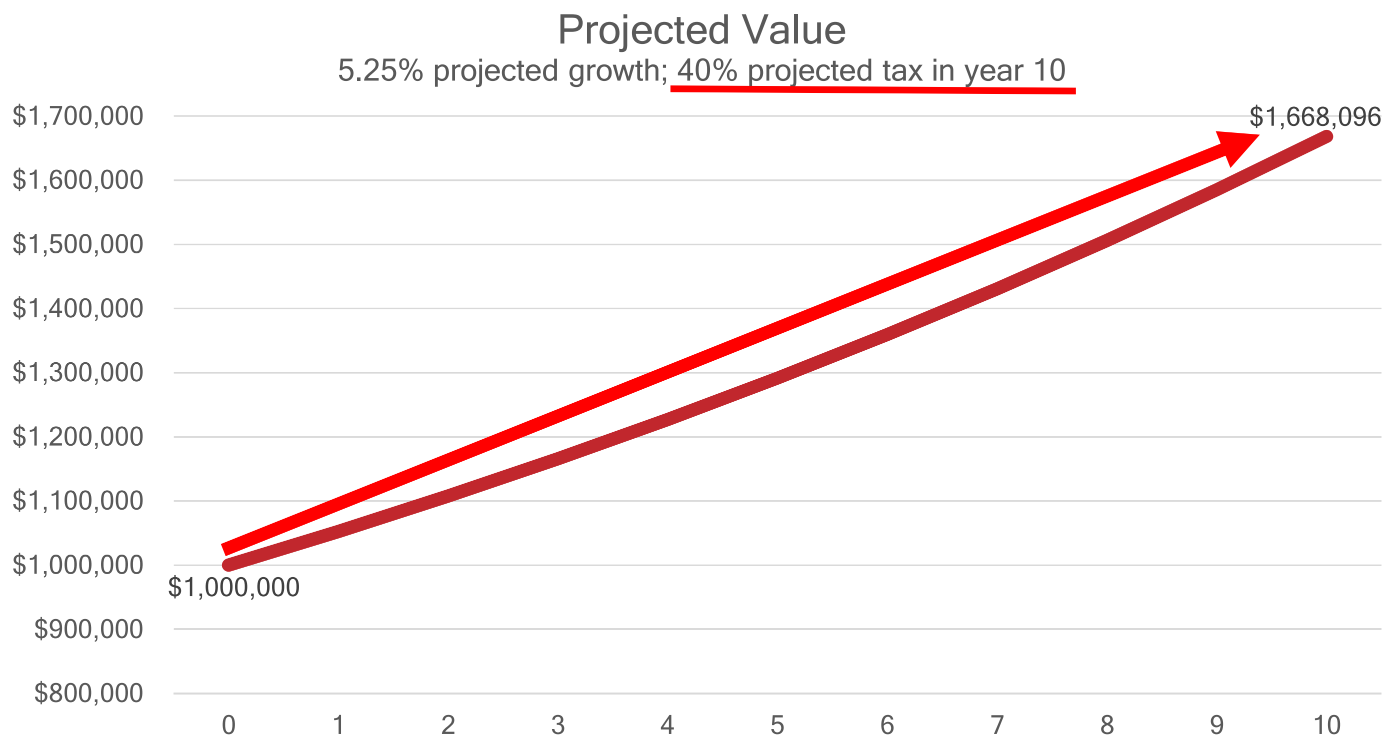

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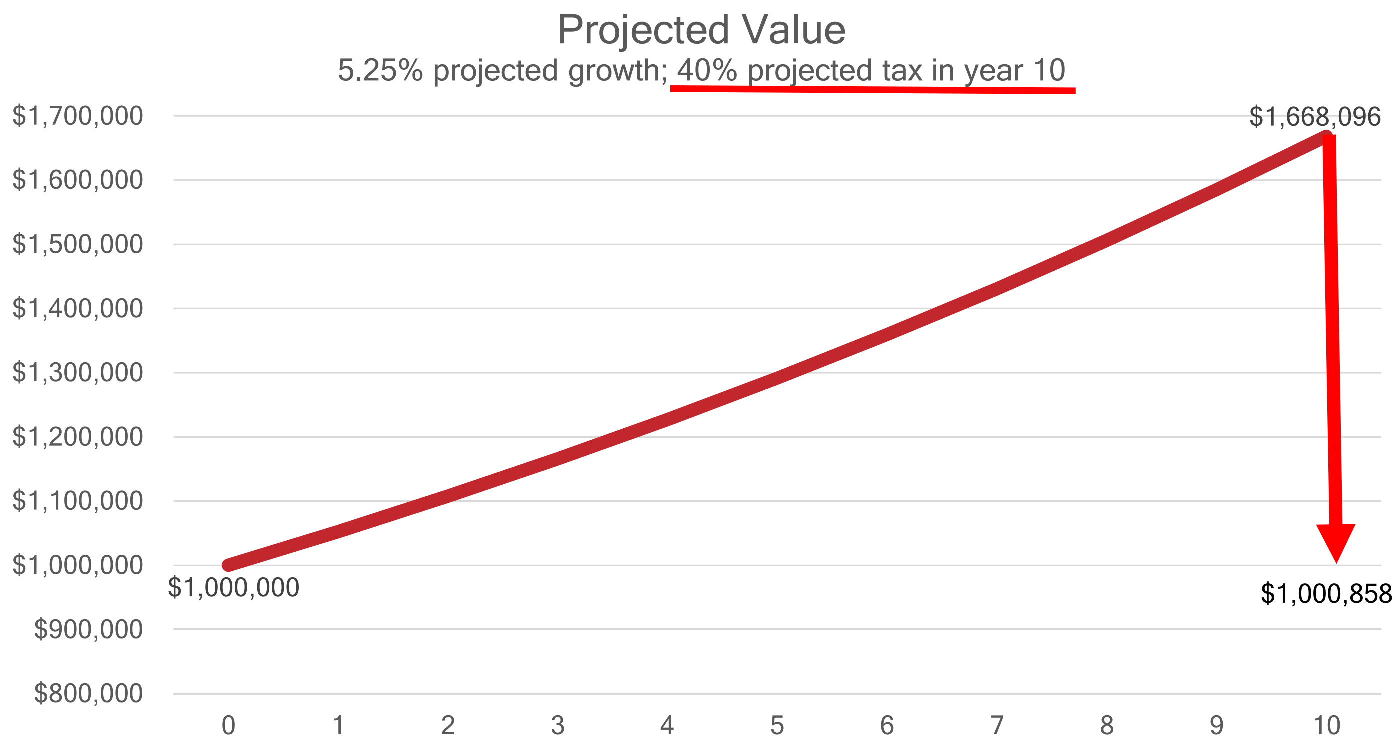

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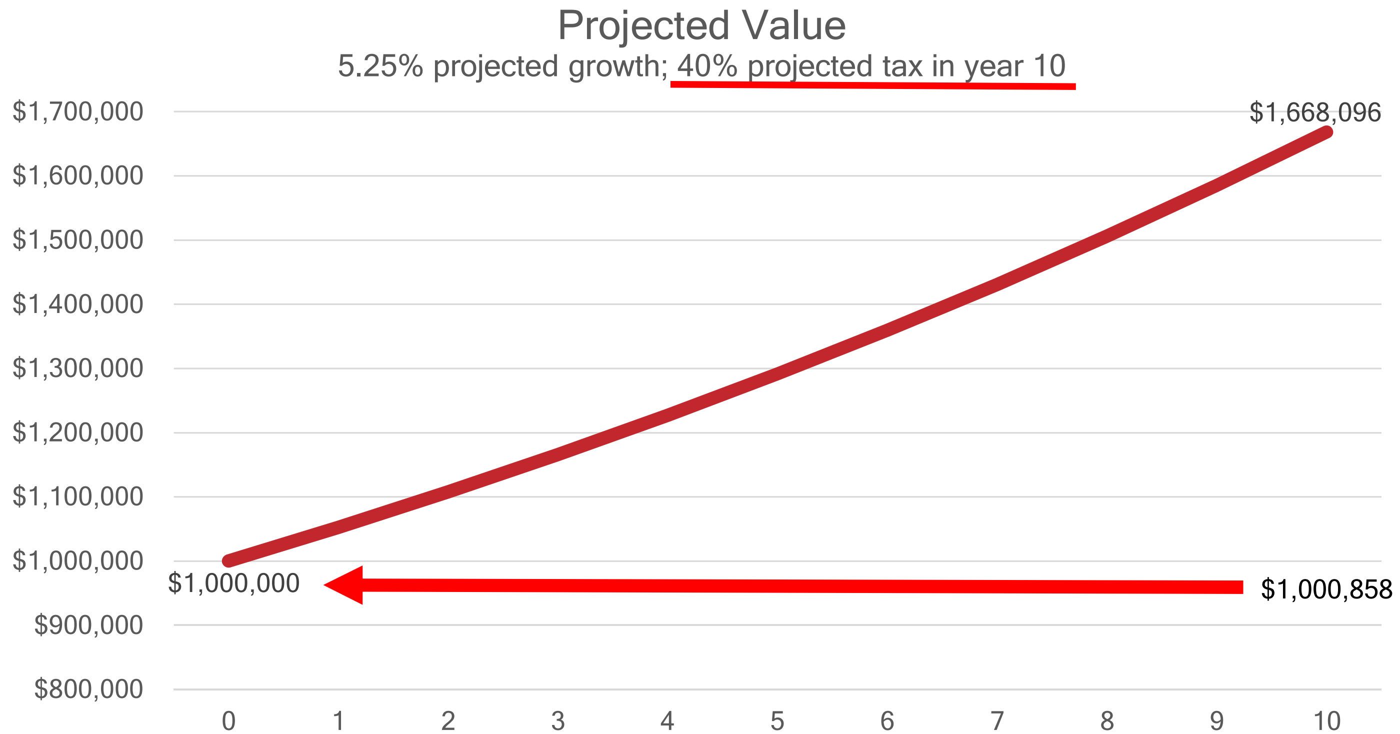

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Key Points:

1. You inherited (or will inherit) an IRA

   That's a great windfall, but…

   - *TAXES, TAXES, TAXES!*

2. Revisit the *Roth Conversion*

3. *"Convert"* your Inherited IRA?

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1. You Inherited An IRA

A. *The SECURE Act*
   - Inherited IRAs must be fully distributed… and taxed… within 10 years
   - No more “*stretching*” *(some exceptions apply)*

B. Lump-sum taxes in the 10th year could be significant:
   - A significant 1-year increase in AGI… IRA value could nearly double!
   - You could be pushed into a higher marginal tax rate
   - Could lose 35% – 40% to Federal income taxes
   - Could lose even more to State income taxes

C. What are you gonna do with the $$$ *after* you pay the taxes?
   - Reinvest it into your Non-Qualified portfolio?
   - Keep paying taxes on the growth for the rest of your life?

2. The Roth Conversion: *Revisited*

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Everything you convert gets taxed, but…

You may never pay tax on it again!

Your beneficiaries may not pay tax on it, either!

Why don't people convert?

3. Convert Your Inherited IRA?

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IRA owners can convert to a Roth IRA, but…

IRA beneficiaries CANNOT convert to a Roth IRA

Is there another way?

The Life Insurance Alternative

3 Easy Steps:

1. 10 equal annual distributions to liquidate the Inherited IRA
2. Apply after-tax distributions as premiums to a Life Insurance Policy
3. Compare the results

The Life Insurance Alternative

Male, 50, PNT; Initial DB: $973,428; Max Accum+ IUL
10-Pay premium: $46,572

Remember that access to the values of these two alternatives are very different. The reinvested IRA will have cost basis. Growth is typically taxed annually, while the rest of the values that represent cost basis can be accessed without taxation. The life insurance policy cash values can be accessed using policy loans and withdrawals. Structured correctly, these cash values can be accessed without current income tax. Policy cannot be a Modified Endowment Contract (MEC) Please consult a qualified tax advisor before making any decisions about an IRA or life insurance policy.

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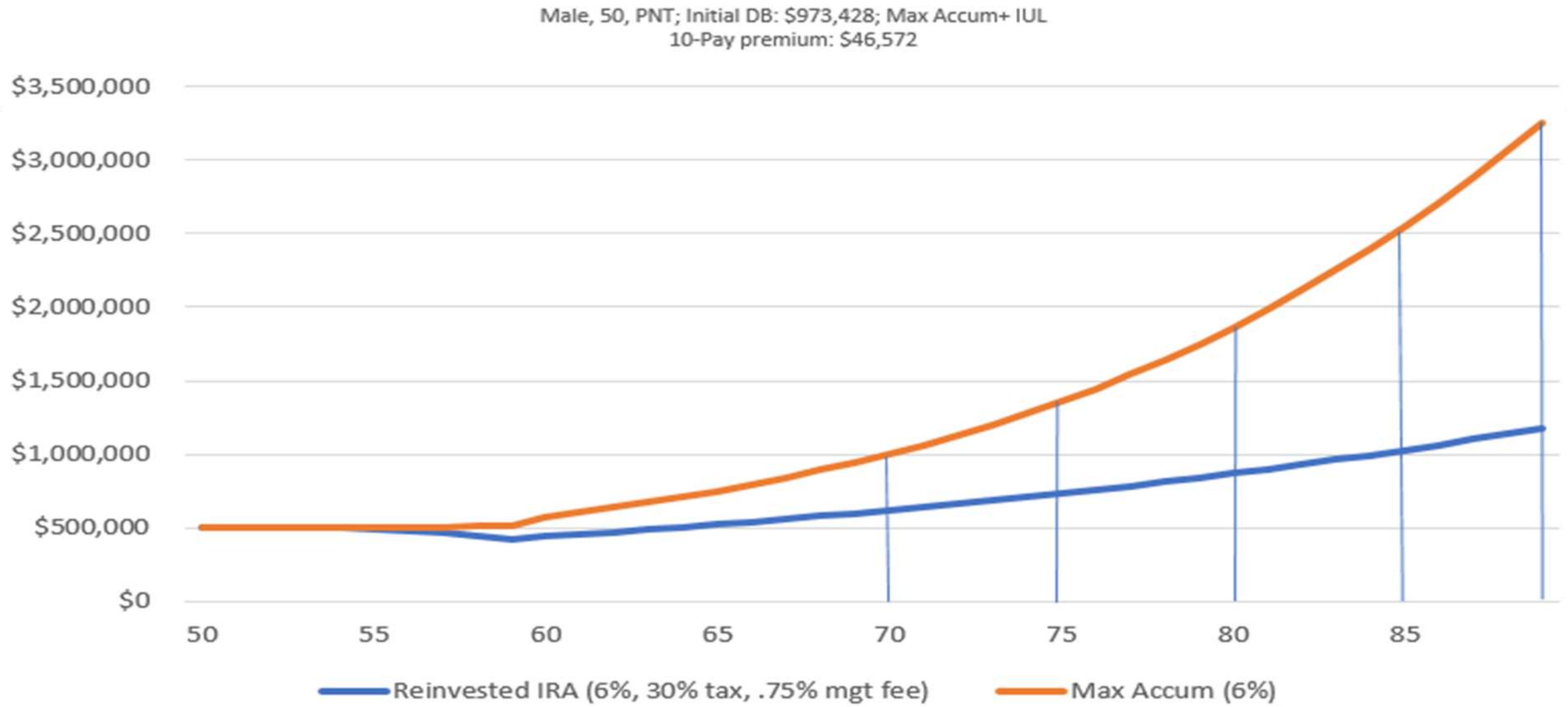

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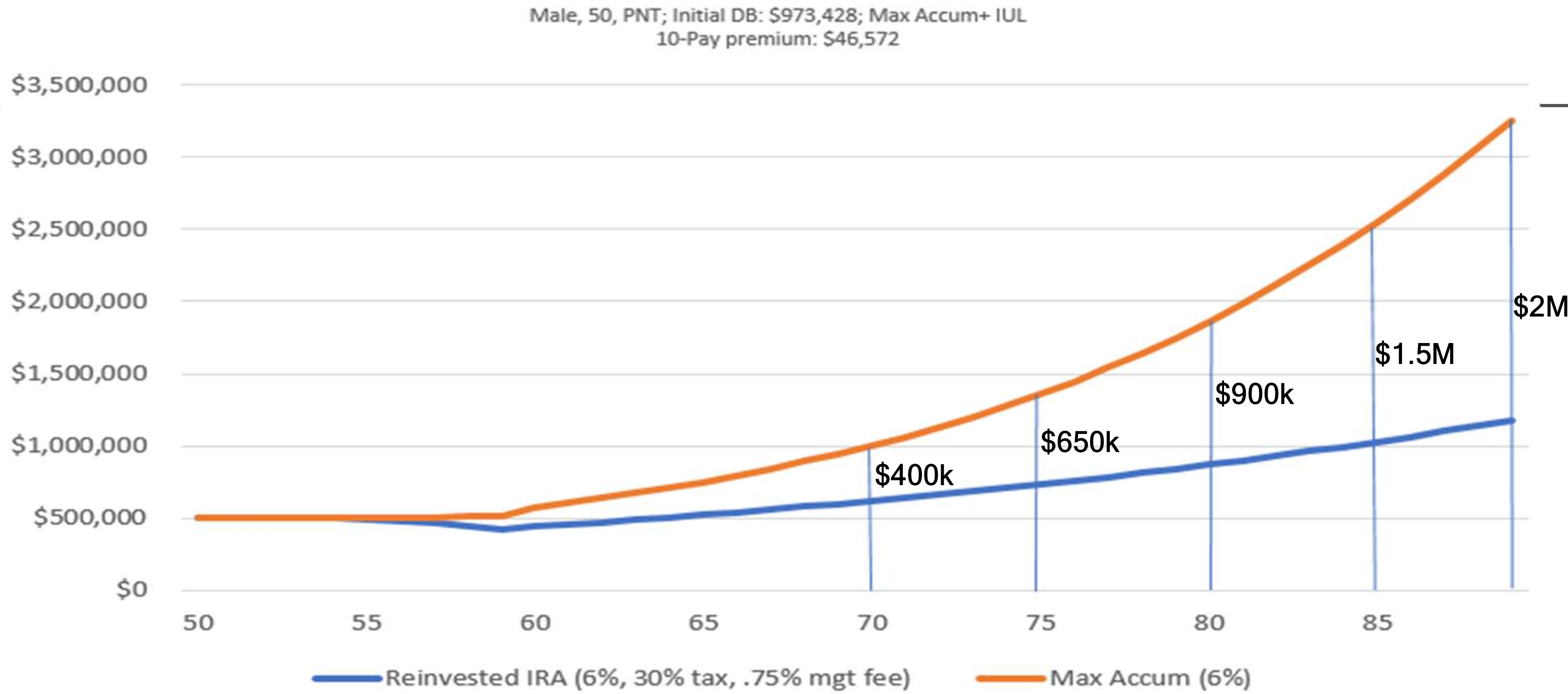

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The Life Insurance Alternative

1. Your inherited IRA is a windfall, but…
   - *TAXES, TAXES, and more TAXES!*

2. As an IRA Beneficiary, you must pay taxes on the entire account balance *(just like you'd have to do for a Roth Conversion)*, but you cannot *"convert"* those Inherited IRA distributions to a Roth IRA.

3. Consider doing a *"Life Insurance Conversion"!*

Advantages Of *Life Insurance*

Look At The Benefits:

- ✓ The client obtains additional life insurance death benefits to protect themselves and their loved ones
- ✓ After the Inherited IRA has been distributed and taxed, the beneficiary protects the inheritance from future taxation on growth & distributions during their lifetime, AND when their beneficiaries inherit the death benefit
- ✓ Client has significant flexibility to access the money, but doesn't have to *(there are no required distributions)*
- ✓ Advisor has a meaningful recommendation for the client, and builds credibility through the "value added"
- ✓ Advisor generates meaningful revenue in exchange for their planning expertise

AIG 100

Where Do We Go From Here?

Next Steps… Implementation

1. During portfolio reviews with clients between age 40 - 60, ask:
   - "*Did your parents recently pass away, or do you expect them to pass away in the near future?*"
   - If "yes" ask: "*Did (or will) you inherit an IRA from them?*"
   - Begin preparing for the opportunity!

2. Identify current clients in their 70's and 80's that have IRA assets that they're leaving to their kids… begin this conversation.
   - Get introduced to their children and grandchildren

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Questions?

You Inherited an IRA…

Now What?

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CELEBRATING THE PAST

100

LEADING THE FUTURE