BB&T Life Insurance Services

MAXIMIZATION STRATEGIES

Redirecting Assets for Tax Efficient Transfer to Heirs

Clients thinking about tax planning often focus heavily on present day or retirement. And for good reason — solid retirement planning can be quickly foiled by taxes eating into the assets set aside for living expenses. Some assets such as qualified plans and non-qualified annuities offer attractive tax advantages for retirement planning, like current deductions and tax deferral during the accumulation phase. However, as the clients age these financial vehicles become less attractive assets to leave to beneficiaries — bringing income tax consequences as well as possible estate tax consequences.

Maximization strategies can increase the net value beneficiaries receive by repositioning assets to reduce or eliminate tax burdens such as:

- Income taxes
- Estate taxes
- Inheritance taxes
- Gift taxes
- Generation skipping transfer taxes

Who and What are Good Candidates

When a client does not need the income from an asset for retirement and has decided to pass it on, the following are primary examples where maximization strategies can be effective:

IRA: Typically funded with pre-tax dollars, once money is taken out the distribution is fully subject to income tax and makes it unattractive for legacy planning.

Required Minimum Distribution (RMD): At age 70 ½, with the need to take RMDs from their qualified retirement plans, many clients do not want or need the additional taxable income and prefer to transfer more wealth to family.

Non-Qualified Annuity: Funded with after-tax dollars, the growth is tax-deferred until received. Once distributions are taken, clients will be subject to ordinary income tax to the extent of any gain in the contract.

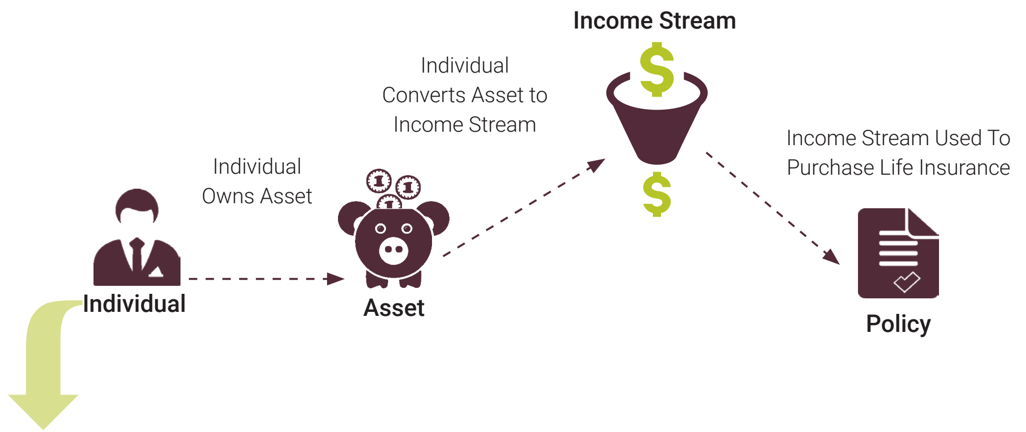
OPPORTUNITY

Since maximization strategies involve planning for beneficiaries, this topic can be a great way to engage not only the client but the next generation as well.

Encourage clients to involve their children and grandchildren in their planning.

How Does It Work?

Maximization strategies convert assets into an income stream and use that to purchase a life insurance policy. The resulting life insurance policy may be personally owned by the client or, if there are estate tax concerns, by another person or a trust. When the client dies, the life insurance policy death benefit will be paid to the beneficiary, free of income tax and possibly estate tax. Even if a client's estate will not be subject to estate tax, often the leverage obtained from converting premium to an income tax free death benefit will optimize the legacy for the heirs.



WHO TO LOOK FOR?

Suitable prospects for maximization strategies are individuals who:

- Have assets such as qualified plans, IRAs, annuities and municipal bonds
- Will not need the income from those assets for retirement
- Would like to leave a legacy to their heirs
- And, may be concerned about potential estate taxation

Older individuals and those heavily weighted in assets with deferred income are generally better prospects for these strategies.