Maximizing Inherited IRA* Assets

Using Life Insurance

Pacific Life Insurance Company

Using Distributions from an IRA to Help Non-Spousal Beneficiaries Cover Income Taxes on Inherited IRA Distributions

** Individual Retirement Account*

Generational Strategies Group LLC

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You likely have diligently saved for your retirement using both qualified and nonqualified assets. If you have accumulated significant Individual Retirement Account (IRA) assets that you may not need for retirement, using Required Minimum Distributions (RMDs) as premiums to buy life insurance[1] may help cover income taxes that your non-spousal beneficiaries may incur when they take distributions from the IRA balance that they inherit from you (i.e., the inherited IRA). Please note that the purchase of a life insurance policy requires a death benefit need and full underwriting.

AN EXAMPLE:

Passing IRA Assets to Heirs

If you have a large IRA, most or all of which you do not need to meet your living expenses during retirement, a significant IRA balance may potentially pass to your heirs upon your death. If you want to pass the IRA to a non-spousal beneficiary, note that the rules have changed. Previously, your non-spousal beneficiaries could "stretch" the IRA and take distributions over their lifetime, and thus the income taxes would be spread out over their lifetime. The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), however, changed the rules for non-spousal beneficiaries. Under the SECURE Act, if an IRA owner passes away and the beneficiary is not the IRA owner's spouse, that non-spousal beneficiary has a maximum of ten(10) years to take distributions from the IRA. The beneficiary can take a lump-sum distribution or multiple distributions, but they must withdraw the entire IRA balance within ten years of the IRA owner's death.

Since the inherited IRA distributions must be taken within a maximum of 10 years, most likely accelerating and potentially increasing the income tax impact to your non-spousal beneficiaries, how will the tax hit affect your beneficiaries (after your death), and how might they pay for any income taxes? In the right circumstances, using distributions from an IRA to purchase life insurance can assist your non-spousal beneficiary(ies) to cover any income taxes.

A STRATEGY:

Help Non-Spousal Beneficiaries Cover Income Taxes on Inherited IRA Distributions

Starting in 2020, those who reach age 73 are required to take at least the Required Minimum Distributions from the IRA. But if you want to maximize the wealth you pass to your non-spousal beneficiaries (by helping them cover any income taxes), you may elect to use the distributed funds from your IRA to purchase a life insurance policy on your life. Although your distributions from the IRA will be subject to income tax, the death benefit payable to the policy's beneficiary(ies) at your death should pass to your beneficiary(ies) income tax-free.*

STEP 1: You take distributions from your IRA and pay the income tax due at your marginal rate for that year.

STEP 2: You purchase life insurance on your life for the benefit of your beneficiaries.[2]

STEP 3: Upon your death, the life insurance policy death benefit will be paid to your beneficiaries, who should receive the death benefit proceeds income tax-free.*

STEP 4: Your beneficiaries will also receive any remainder of your IRA balance, which may be subject to estate taxation.

STEP 5: After your death, when your non-spousal beneficiaries take distributions from the inherited IRA (over a period of up to ten years), they may use the death benefit proceeds to help cover any income taxes.

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1 As with all uses of life insurance, the amount of life insurance coverage asked for in conjunction with this concept may be limited by Pacific Life Insurance Company's financial underwriting guidelines. Financial underwriting is an assessment of whether the proposed death benefit is a reasonable replacement for the financial loss caused by the death of the insured.

2 If the insured's estate is large enough to trigger federal and/or state estate taxes, then the policy should be owned outside the insured's estate, either in an irrevocable trust or by the beneficiaries.

* *For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e. the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).*

MAXIMIZING IRA ASSETS AFTER THE SECURE ACT

IRA owners who want to pass along more to their non-spousal beneficiaries, to help cover income taxes, may take distributions from their IRA to purchase a life insurance policy on their own lives. The income tax-free death benefit, in addition to the remaining IRA balance, should provide a larger net amount to the non-spousal beneficiary.

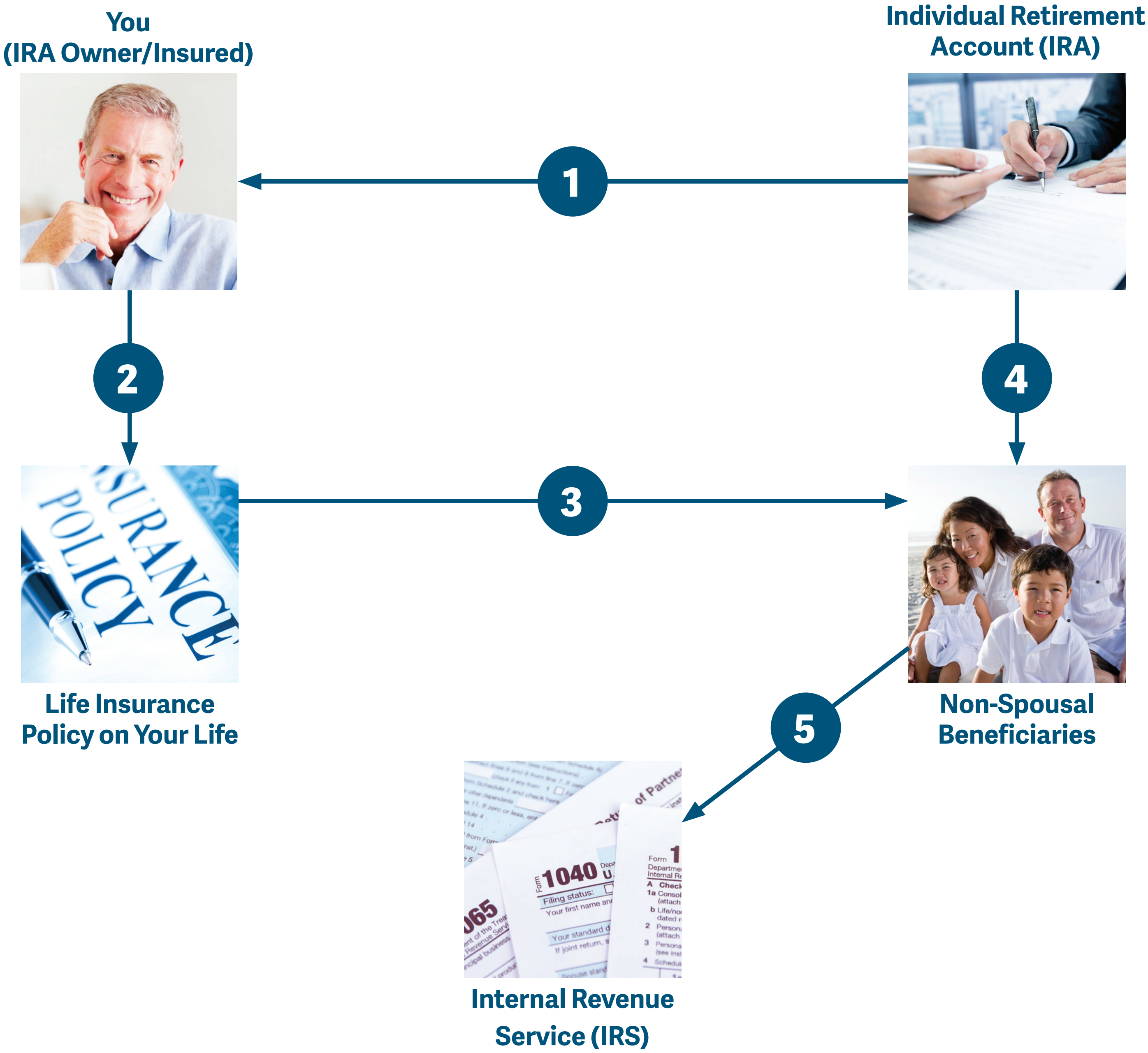
In the example below, the IRA owner has an IRA with a current value of $3,000,000, with an assumed 6% growth rate each year. If the IRA owner does not buy life insurance, but merely takes RMDs starting at age 73 until death (let's assume at age 85), the adult child/non-spousal beneficiary receives **$5,409,599** if he or she waits until the 10th year following the IRA owner's death to take the distribution. Or - if the IRA owner takes modest annual distributions from the IRA (the greater of $142,857 or RMDs), $90,000 of which is used to pay premiums for life insurance policy on his or her own life with a $3M death benefit, the non-spousal beneficiary may receive $3,000,000 in tax-free death benefit proceeds, plus $4,009,234 in after-tax IRA distributions, for a total of **$7,009,234**.

BEGINNING IRA BALANCE	$3,000,000
GROWTH RATE	6.00%
IRA OWNER CURRENT AGE	65
IRA OWNER AGE AT DEATH	85
BENEFICIARY CURRENT AGE	36
BENEFICIARY AGE (at IRA owner's death)	56

WITHOUT Life Insurance:		**WITH** Life Insurance:	
Beginning IRA balance (Age65)	$3,000,000	Beginning IRA balance (Age65)	$3,000,000
N/A	N/A	Annual IRA distributions to pay life insurance premiums	$90,000/year used for life insurance premiums
IRA value at death (Age85) at 6% growth	$5,082,434	IRA value at death (Age85) at (6% growth)	$3,553,548
IRA AMOUNT LEFT TO BENEFICIARY		**IRA AMOUNT LEFT TO BENEFICIARY**	
$5,082,434		**$3,553,548**	
IRA GROWTH OVER 10-YEAR PERIOD AT 6%		**IRA GROWTH OVER 10-YEAR PERIOD AT 6%**	
IRA balance at end of 10 years	$8,586,665	IRA balance at end of 10 years	$6,363,863
Taxes deducted[3]	$(3,177,066)	Taxes deducted[3]	($2,354,629)
LIFE INSURANCE DEATH BENEFIT PROCEEDS		**LIFE INSURANCE DEATH BENEFIT PROCEEDS**	
N/A		**$3,000,000**	
TOTAL AMOUNT TO BENEFICIARY		**TOTAL AMOUNT TO BENEFICIARY**	
$5,409,599		**$7,009,234**	

Cash value life Insurance generally requires additional premium payments after the initial premium. If either no premiums are paid, or subsequent premiums are insufficient to continue coverage, it is possible that coverage will expire.

3 Assumed federal income tax rate is 37%.


You
(IRA Owner/Insured)
Individual Retirement
Account (IRA)
1
2
4
3
Life Insurance
Policy on Your Life
Non-Spousal
Beneficiaries
5
Internal Revenue
Service (IRS)

1	**DISTRIBUTIONS**	You take distributions from your Individual Retirement Account (IRA) and pay any income tax due.
2	**PREMIUMS**	Assuming the IRA distributions are not needed for retirement income, you use the distributions to purchase a life insurance policy on your life.
3	**DEATH BENEFIT PROCEEDS**	Upon your death, the policy's death benefit will be paid to your beneficiaries income tax-free.*
4	**REMAINING IRA BALANCE (AT YOUR DEATH)**	Upon your death, any remaining IRA balance passes to the designated beneficiaries, is included in your estate, and may be subject to estate taxes.
5	**TAXES**	After your death, your non-spousal beneficiaries will take distributions from the inherited IRA within a maximum of 10 years and pay any income taxes due. They may use the death benefit proceeds to help cover/recoup those taxes.

ADVANTAGES INCLUDE:

- You may help your non-spousal beneficiary of your IRA cover any income taxes on the inherited IRA distributions.
- By taking distributions from the IRA while living, you may reduce the amount of distributions heirs may be required to take after your death. This could reduce the heirs' income tax liability on the IRA assets.
- Heirs receive the death benefit proceeds income tax-free*, which can help cover any income taxes incurred when they take distributions from the inherited IRA.

DISADVANTAGES INCLUDE:

- Any distributions that you receive from the IRA will lower the IRA balance and are subject to income taxes.
- If you realize that you need the IRA distributions for living expenses during retirement, you may not have the funds to purchase (or continue paying premiums for) a life insurance policy.
- The client/insured must be underwritten for the life insurance policy.

This fact finder is provided to help you and your life insurance professional better understand your goals and objectives. Please return the information to your life insurance professional and not to Pacific Life as we cannot and do not provide financial, legal or tax advice.

VITAL INFORMATION

Name: ______________________________

Date of Birth: ______________________ Sex: ______________________

Current IRA Balance: ______________________ Expected IRA Growth (%): ______________________

Risk Status: ☐ Select ☐ Nonsmoker ☐ Smoker

Policy Type: ______________________ Years to Pay Premiums: ______________________

Other Nonqualified Assets: ______________________ Other Asset Interest Rate: ______________________

Present Income Tax Bracket: ______________________

Desired Distributions (choose one):

☐ Required Minimum Distributions (RMDs)

☐ Specific Amount (Gross, RMDs enforced): $ ____________

☐ Specific Premium Amount (Net of Tax, RMDs enforced): $ ______________________

☐ Amount to Pay Premium on Specified Policy Face Amount: $ ______________________

Other Spending From IRA: ______________________

What additional goals do you want to accomplish? ______________________

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Attorney: ______________________ Phone Number: ______________________

Accountant: ______________________ Phone Number: ______________________

PACIFIC LIFE

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