IRA Maximization

Tax elimination strategy

Transferring your wealth can be complex, especially when you want to allocate your funds to both your loved ones and the charities that you value the most. But finding a strategy that efficiently transfers your legacy to the people and charitable organizations that matter most to you is within reach.

The tax elimination charitable strategy is an IRA Maximization approach that uses life insurance to help eliminate the income tax upon the death of an IRA owner by designating a charity of their choice as the IRA beneficiary.

How does it work?

1. By making withdrawals from your IRA, you purchase and pay for the annual premiums of a life insurance policy.
2. The death benefit of this life insurance policy is determined by taking the peak value of the IRA over your remaining lifespan, based on a given rate of return.[1]
3. When you've passed, the life insurance policy's death benefit will be transferred to your loved ones, while the remainder of the IRA goes to the charity of your choice.

Here's an example:

John wants to leave an inheritance for his daughter, Jane, but he wishes to provide funds to a charitable organization as well. He needs a plan that will eliminate an income tax burden for Jane, but will also transfer part of his legacy to a charity.

Assumptions	Tax elimination strategy[2]	Results
John Age 72 (survives to age 90)	$1,535,791 Life insurance policy	$1,535,791 Jane's inheritance
Jane Age 47 (survives to age 80)	Reference chart on the back for details.	$703,045 Charitable gift
$1,000,000 IRA balance		$1,514,379 Total legacy tax free
5% IRA annual return income tax rate 30% for John		

John purchases a life insurance policy, naming Jane as the beneficiary which will eliminate the income tax burden for her. At the same time, John makes the charity the beneficiary of his IRA.

Important Note: Under the 2020 CARES Act, Required Minimum Distributions (RMDs) are not required in 2020.

The term “charity,” as used in this context, means a charitable organization exempt from income tax under the Internal Revenue Code.

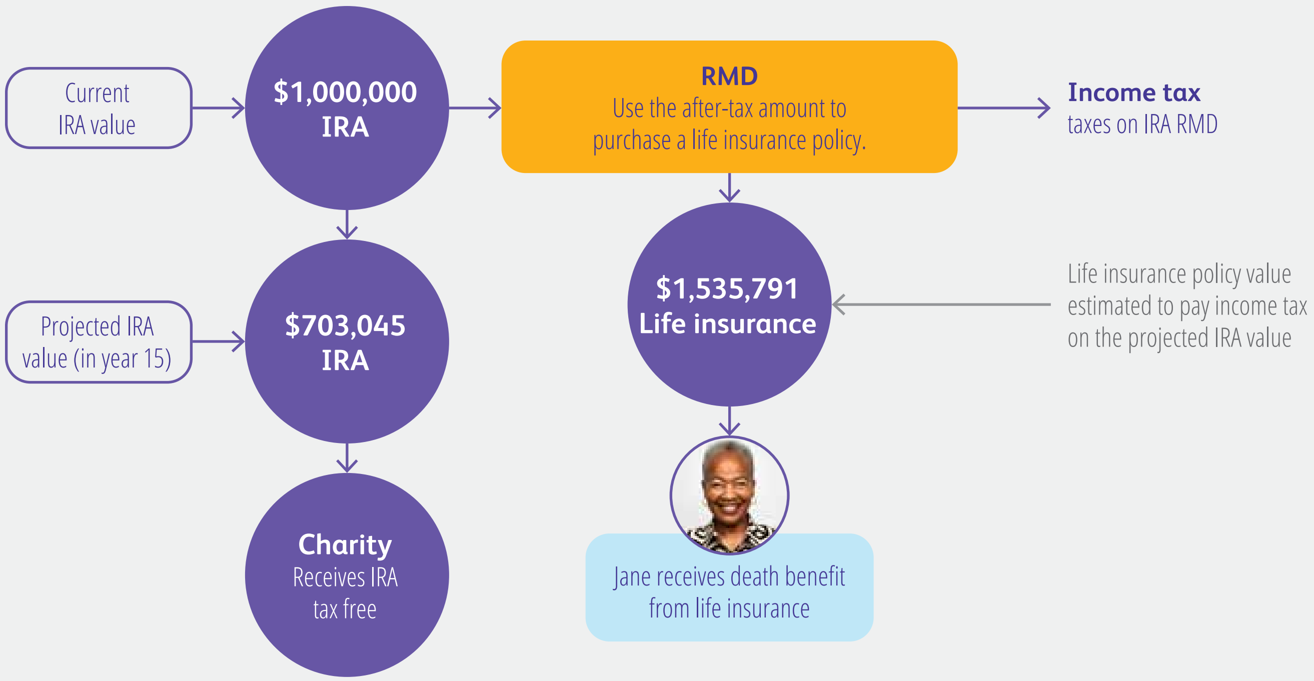
[1]Taking additional withdrawals from the IRA to pay life insurance premiums may not be the best alternative. Whenever life insurance premiums exceed RMDs, an individual should consider paying those premiums from sources other than the IRA.

[2]At John's age at death (90), assuming distributions made from IRA to pay 100% of life insurance premiums.

Additional information on next page.

Protective refers to Protective Life Insurance Company and Protective Life and Annuity Insurance Company.

Tax elimination strategy process:



This projection assumes the client didn't follow our strategy and just left the IRA to their beneficiary. This is important because we want the beneficiary to get an amount that is equivalent to what they would have received, but by making it income tax free and pinpointing the peak value, the beneficiary can avoid market fluctuations that may impact the IRA value.

What's the value of using this strategy?

With the tax-free death benefit from the life insurance policy, no one is taxed when the funds are passed on to the charity and beneficiary. Even if the policy owner dies earlier than year 15 of their IRA, that only means the beneficiary will receive a benefit of higher value than without using the Tax Elimination Strategy.

For more information, please contact your financial representative.

Case studies and benefit values represented as part of this presentation are based on hypothetical client age, gender, underwriting classification, premium and interest rate assumptions and are solely intended to introduce IRA Maximization concepts using life insurance contracts. Life insurance death benefits and cash values will always vary based on a variety of factors including age, gender, health, and other underwriting factors. Consumers should consult specific information regarding the products they are considering.

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The income tax on an IRA is not due until each distribution is taken. If an individual made non-deductible contributions to the IRA, a portion of the IRA proceeds may be an income tax-free of basis.

While these strategies may help reduce or eliminate income taxes, they may cause an equal or greater amount of estate taxes, depending on an individual's situation.

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