Wealth Maximization

Wealth Maximization (*Wealth Max*) is an estate planning technique to move a deferred annuity's value into a more transfer tax efficient arrangement using a life insurance policy (owned by an ILIT). Wealth Max is best for someone with a large deferred annuity that will not be needed for retirement income.

Wealth Maximization is an Effective Estate Planning Technique

- Annuities owned at death are subject to estate taxes.
- Annuities do not receive a "stepped up basis" at death.
- Amounts received by the decedent's beneficiary are taxable as ordinary income – the same as if the decedent had received the distribution (income in respect of a decedent).
- Life insurance death benefit can be received both income tax and estate tax free. Annuities are subject to estate tax and income tax on all of the gain.

How Wealth Maximization Works

1. Client establishes an irrevocable life insurance trust (ILIT) that is owner and beneficiary of a life insurance policy insuring the client(s) life.
2. Client takes distributions from annuity. This can be done with distributions or by annuitizing the annuity.
3. Client pays income tax on annuity distribution received.
    a. Distributions may be subject to surrender charges and may be subject to a 10% penalty unless an exception exists. Exceptions include (IRC § 72(q):
        i. Client is age 59 ½ or older.
        ii. Client is disabled.
        iii. Distribution is part of a series of substantially equal periodic payments.
4. Client gifts some or all of the remaining distribution to ILIT
    a. If the client wants to use annual exclusions for gifts to the ILIT, the trustee sends out Crummey notices to make the gifts a "present interest."
5. Trustee pays premiums on life insurance policy.
6. At insured's death, Trustee collects life insurance policy proceeds that are free from income and estate taxes.
7. The trustee makes distributions to the beneficiaries according to the trust directions.

Considerations

- Unneeded annuity's value is transferred to the next generation (or subsequent generations) and minimizes income and estate taxes.
- Reduces (or eliminates if a life only annuity) estate and income taxes associated with owning an annuity at death and subsequent distributions from that annuity.
- Life insurance proceeds can be held of distributed for future generations.

Essentially

Wealth Max uses annuity distributions to buy life insurance and minimize estate and income taxes associated with owning an unneeded annuity. Use of a trust to own the policy and receive the death benefit can maximize the amount of wealth transferred to subsequent generations.

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