IMPORTANT IRA TAX INFORMATION

This material contains statements regarding the tax treatment of certain financial assets and transactions. These statements represent only our current understanding of the law in general and are not to be considered legal or tax advice by purchasers. The tax treatment of life insurance and Individual Retirement Accounts (IRAs) are subject to change. Income, estate, gift, and generation skipping tax rules are subject to change at any time. Neither Protective Life nor its representatives offer legal or tax advice. Purchasers should consult with their legal or tax advisor regarding their individual situations before making any tax-related decisions.

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

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No Bank Guarantee	Not FDIC Insured	May Lose Value

CLC.1124 (05.14)

IRA Maximization

Wealth transfer strategies to enhance your legacy

Protective®

Protect Tomorrow. Embrace Today.™

CLC.1124 (05.14)

Congratulations!

For many years you've put in the hard work planning, saving and investing for retirement. With all of that hard work you have successfully accumulated enough assets to live in retirement the way you imagined and planned. And with this success you have an IRA that you won't need to help supplement your retirement income.

If you have an IRA that you won't need for retirement it has created an opportunity for you and your loved ones. Your IRA could be a wonderful financial inheritance for your loved ones one day. But leaving it to them could also become a financial tax burden for them. When your IRA passes to your beneficiaries they may be immediately responsible for estate and income taxes

on the entire amount of the IRA. And depending on their income tax bracket the total reduction can be up to 70% of the IRA value.

You've worked hard to save and invest in your IRA. Are you willing to let its value be lessened by taxes, rather than benefit your loved ones, and having your financial legacy vanish before it could begin? If not, do you have a plan? Do you have a strategy?

Within this brochure we'll show you **five IRA Maximization transfer strategies** that could help you with transferring your IRA efficiently, while potentially enhancing the overall amount received by your loved ones.

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IRA Maximization is a wealth transfer strategy that allows you to transfer the value of an IRA in a more tax-efficient manner. Also, the strategy can help increase or keep the value of the IRA when transferred to your beneficiaries.

Who can benefit from using the IRA Maximization strategy?

- *Someone who doesn't need their IRA assets for their retirement income needs.*
- *Someone more interested in transferring their assets than generating income.*
- *Someone wanting to provide a legacy of lifetime income for their loved ones.*

This brochure covers five key IRA Maximization strategies. Each strategy is used for a specific transfer goal and all use a life insurance policy to help you offset the tax burden associated with transferring an IRA.

1. **TAX OFFSET**
   A strategy that helps the beneficiaries of an inherited IRA fund the income tax owed.
2. **TAX ELIMINATION**
   A strategy to help eliminate taxes from an IRA.
3. **LEGACY ENHANCEMENT**
   A strategy that enables individuals to enhance the amount their beneficiaries inherit.
4. **MULTI-GENERATIONAL IRA**
   A strategy for individuals who want to create a financial legacy that lasts generations.
5. **SPOUSAL ROTH IRA CONVERSION**
   A strategy that creates a plan to provide the money needed, to convert a traditional IRA to a Roth IRA and create financial legacy for loved ones.

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.

Tax Offset

Generally, when you die, your beneficiary will receive the funds of your IRA, and the IRS will promptly take their share. With the **Tax Offset strategy**, you help minimize the burden on your loved ones by helping leverage a life insurance policy to offset the projected amount of income taxes they'll owe when they inherit the IRA.

How it works:

1. *Determine the projected value of your IRA at a point in the future when you might expect to transfer the IRA to your beneficiary.*
2. *Estimate the income tax your beneficiary will owe if the IRA is inherited as a lump sum at the chosen age.*
3. *Purchase a life insurance policy in order to offset the amount of taxes your beneficiary would owe. The purchase of the life insurance policy would be done using a portion of your RMD* from your IRA.*

* 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.

Example:

John has accumulated sufficient assets outside of his IRA and has decided to pass it to his son, James.

John passes his IRA to James as an inheritance by making him the beneficiary of the IRA. John knows by doing this James will be responsible for paying estate and income taxes on the inherited IRA. John wants to implement a plan that will help his son fund the income tax owed on the IRA.

Assumptions

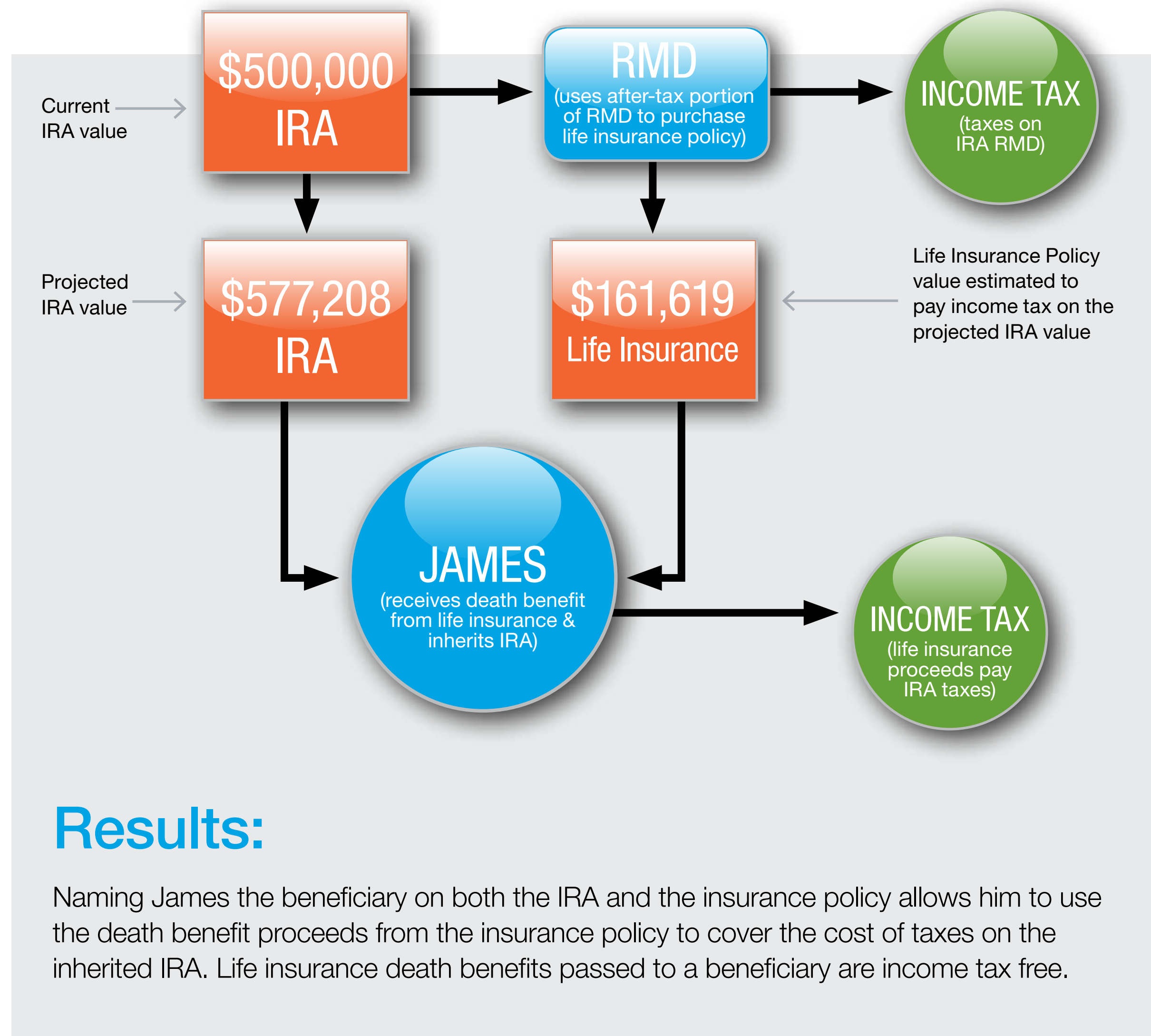
John age 70 - Survives to age 80

James (son) age 45

IRA balance $500,000

IRA annual return 6%

Income tax rate 28%



Results:

Naming James the beneficiary on both the IRA and the insurance policy allows him to use the death benefit proceeds from the insurance policy to cover the cost of taxes on the inherited IRA. Life insurance death benefits passed to a beneficiary are income tax free.

Tax Elimination

The **Tax Elimination strategy** is for those with charitable interests and who also want to leave monetary assets to their heirs. This strategy is designed to help eliminate the income tax on the death of the IRA owner by designating a charity as the IRA beneficiary. In addition, the strategy pays for a policy on the IRA owner's life using his/her after-tax distributions from the IRA.

How it works:

1. *Determine the projected value of your IRA at a point in the future when you might expect to transfer the IRA to your beneficiary.*
2. *Purchase a life insurance policy equal to the amount of the projected IRA value. Using all or part of your RMD* from your IRA. Your heirs should be named as the beneficiary.*
3. *Name a charity as beneficiary of the IRA.*

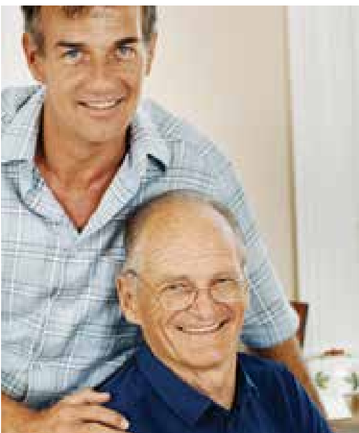
The term "charity," as used in this context, means a charitable organization exempt from income tax under the Internal Revenue Code.

* 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.

Example:

John wants to leave an inheritance for his son and also leave something for his favorite charity.

John wants to use his IRA and he wants to eliminate some of the income taxes to help keep the value of the IRA. He needs a plan that could benefit more than one beneficiary.



Assumptions

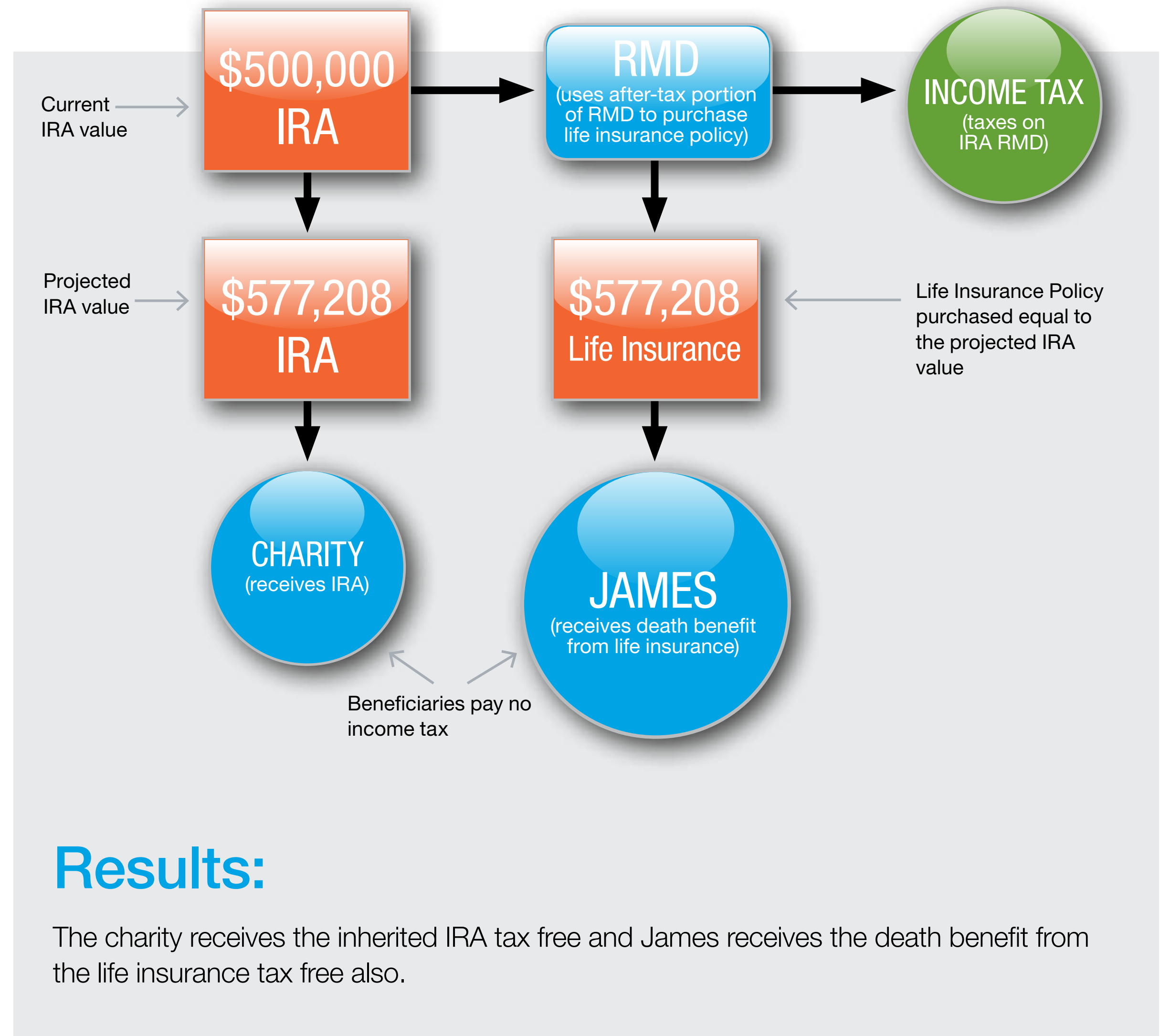
John age 70 - Survives to age 80

James (son) age 45

IRA balance $500,000

IRA annual return 6%

Income tax rate 28%



Results:

The charity receives the inherited IRA tax free and James receives the death benefit from the life insurance tax free also.

Legacy Enhancement

The **Legacy Enhancement strategy** is designed using a life insurance policy to better leverage earnings from your IRA, helping to enhance the amount your beneficiary inherits. This is done by distributing the earnings from the IRA into a life insurance policy. While the IRA owner is subject to income tax on those distributions, use of the after-tax amounts to pay premiums on the policy can potentially increase the overall inheritance.

How it works:

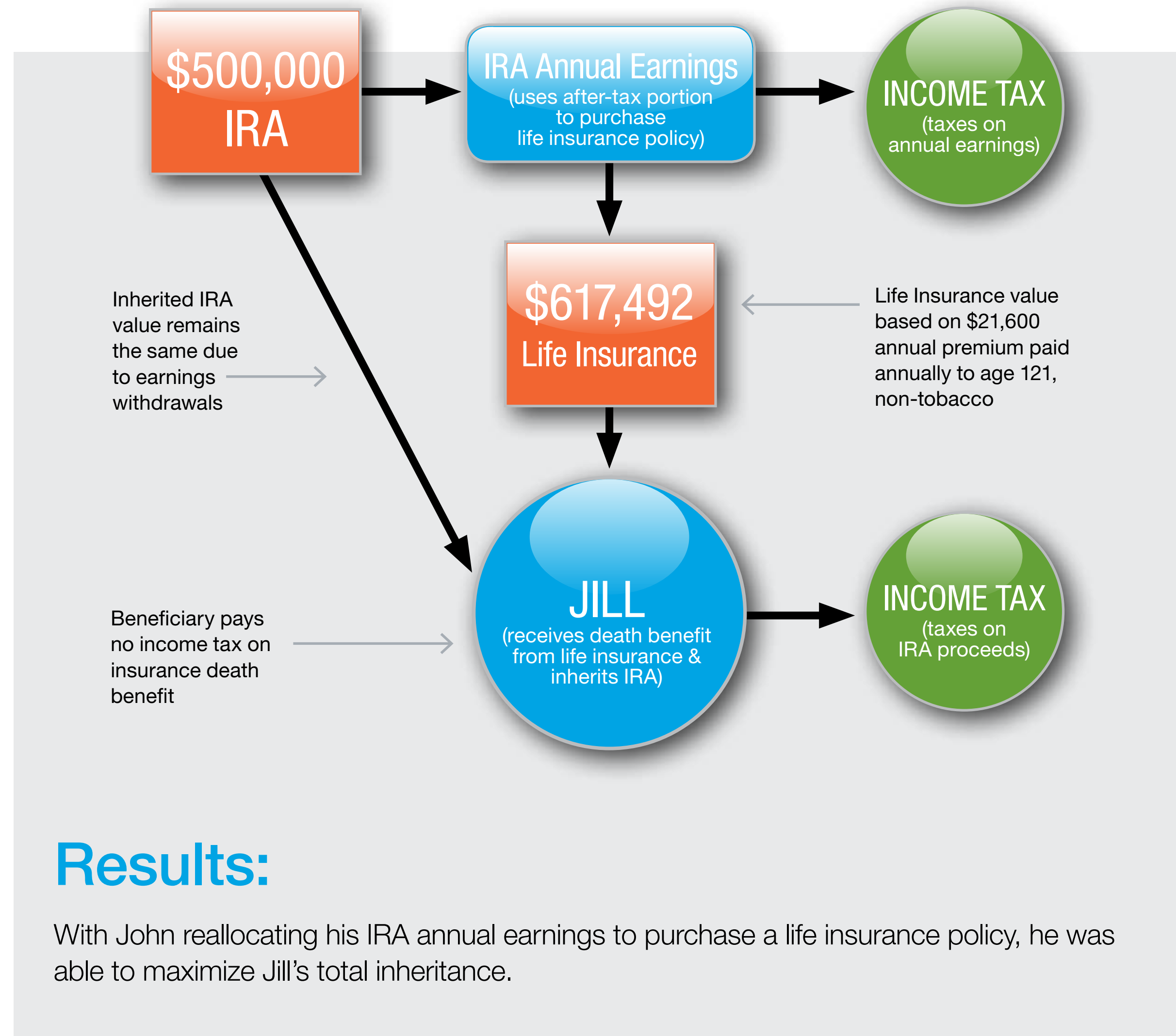
1. *Withdraw the annual earnings from your IRA. The annual earnings from the IRA, which typically exceeds the RMD amount at younger ages, is withdrawn annually and taxes, are paid on the amount taken.*
2. *Use the after-tax withdrawal amount to purchase a life insurance policy and pay the annual premiums each year. After you pay taxes on the withdrawal amount, the net proceeds should be used to purchase the largest possible guaranteed* death benefit on a life insurance policy.*
3. *Name your beneficiary for both the life insurance policy and the IRA.*

* All payments and guarantees are subject to the claims-paying ability of Protective Life.

Example:

John has an IRA that he wants to leave for his daughter, Jill, but also wants to leave her more than just the IRA.

John doesn't want to rely on his other assets for the extra inheritance. He would rather reallocate the required minimum distributions from the IRA since he doesn't need that for his retirement income. He wants a solution that will help him leave the largest possible inheritance for his daughter using his IRA.



Assumptions

John age 70 - Survives to age 80
Jill (daughter) age 40
IRA balance $500,000
IRA annual return 6%
Income tax rate 28%
IRA annual earnings $30,000
Insurance annual premium $21,600

Results:

With John reallocating his IRA annual earnings to purchase a life insurance policy, he was able to maximize Jill's total inheritance.

Subject to full medical and financial underwriting. Maximum face amount may be limited.

Multi-Generational

The **Multi-Generational strategy** is for individuals who want to create a financial legacy that lasts generations. This strategy is based on the fact that when an IRA is passed directly from you, the IRA owner, to the grandchildren, the tax deferral period allowed by the IRS is often dramatically increased, versus passing the IRA on to the children and then the grandchildren. What's best about this method of planning is that it can be structured so that the money can create a legacy for multiple generations. If you're looking to help your children and grandchildren, this can be an effective strategy.

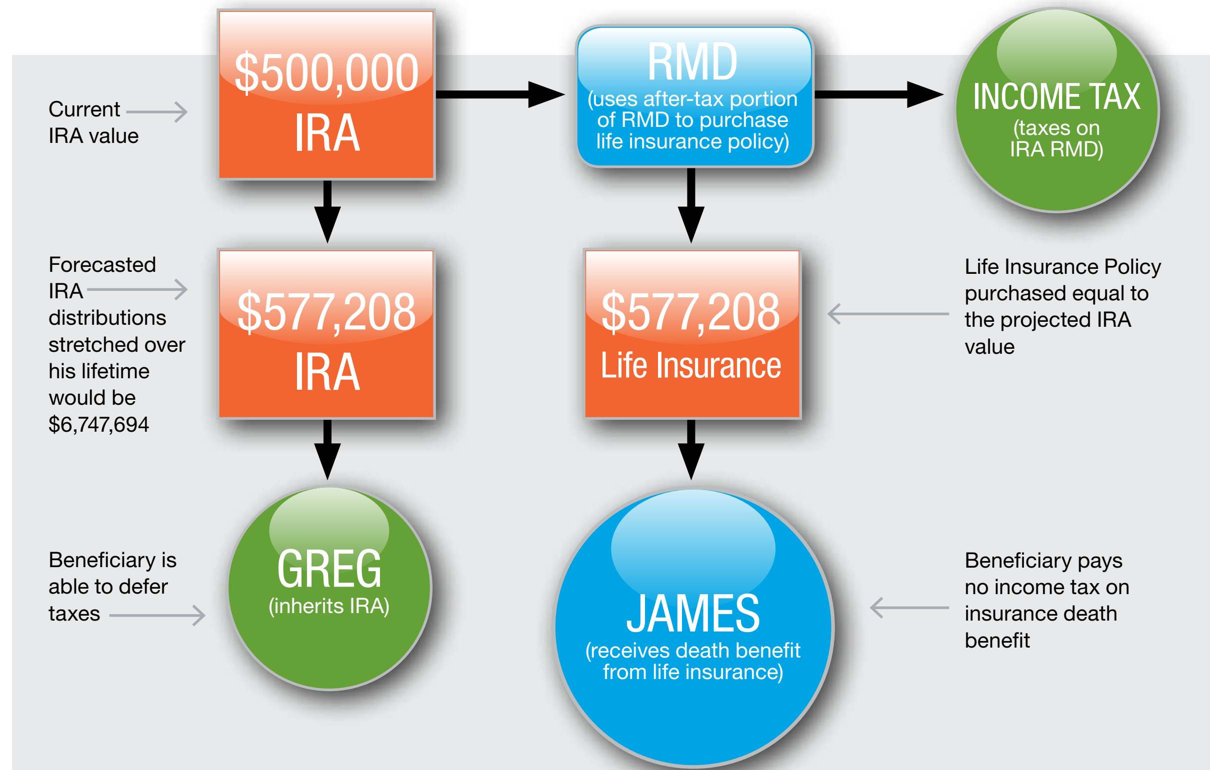
How it works:

1. *Determine the projected value of your IRA at a point in the future when you might expect to transfer the IRA to your beneficiary.*
2. *Purchase a life insurance policy using all or part of your RMD* amount from your IRA to pay the premiums. Name your child/ children as the beneficiary on the death benefit.*
3. *Name your grandchildren as the beneficiary of the IRA. They will have a much longer tax deferral and distribution period, than if they inherited the IRA from their parents. They are only required to take minimum distributions each year according to IRS rules on whether and how inherited IRA accounts may be stretched when there are multiple beneficiaries.*

Example:

John has an IRA that he wants to use as an inheritance. John wants to leave an inheritance for both his son and grandchild.

John knows making them both beneficiaries of the IRA would lessen the value of the IRA because of taxes and the amount being split amongst the two. He is looking for a plan that can help leave a generous amount for both of them while also helping them with the taxes associated with inheriting the IRA.



Assumptions

John age 70 - Survives to age 80

James (son) age 45 – Survives to age 80

Greg (grandson) age 13 – Survives to age 90

IRA balance $500,000

IRA annual return 6%

Income tax rate 28%

Insurance annual premium $19,936

Results:

- James inherited the life insurance amount equal to the projected value of the IRA
- Greg inherited the IRA and instead of paying taxes on the entire amount he is able to continue the tax deferral over rest of his life expectancy.

* 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.

Stretch distributions from the IRA will be taxable to the recipient. Distribution amounts shown in this brochure do not reflect the deduction of taxes.

Spousal Roth IRA

The **Spousal Roth IRA strategy** creates a plan to provide the money needed, so your spouse can convert a Traditional IRA to a Roth IRA and create a financial legacy for your heirs.

How it works:

1. *Determine the projected value of the Traditional IRA at a point in the future when you might expect to transfer the IRA value to your spouse.*
2. *Estimate the income tax your spouse would owe if they were to convert the Traditional IRA to a Roth IRA.*
3. *Purchase a life insurance policy insuring the IRA's owner life, you, with a face amount that approximates the amount of taxes created by the conversion. This is done using all or part of your RMD* amount from your IRA to pay the premiums.*

* 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.

Example:

John has a Traditional IRA that he and his wife do not need to use for their retirement income.

John has decided to use it as an inheritance and also wants to convert it to a Roth IRA because of the distribution tax advantages associated with a Roth IRA. But he knows if he was to convert his Traditional IRA prior to leaving it as an inheritance he would be hit with taxes that would diminish the value.

Assumptions

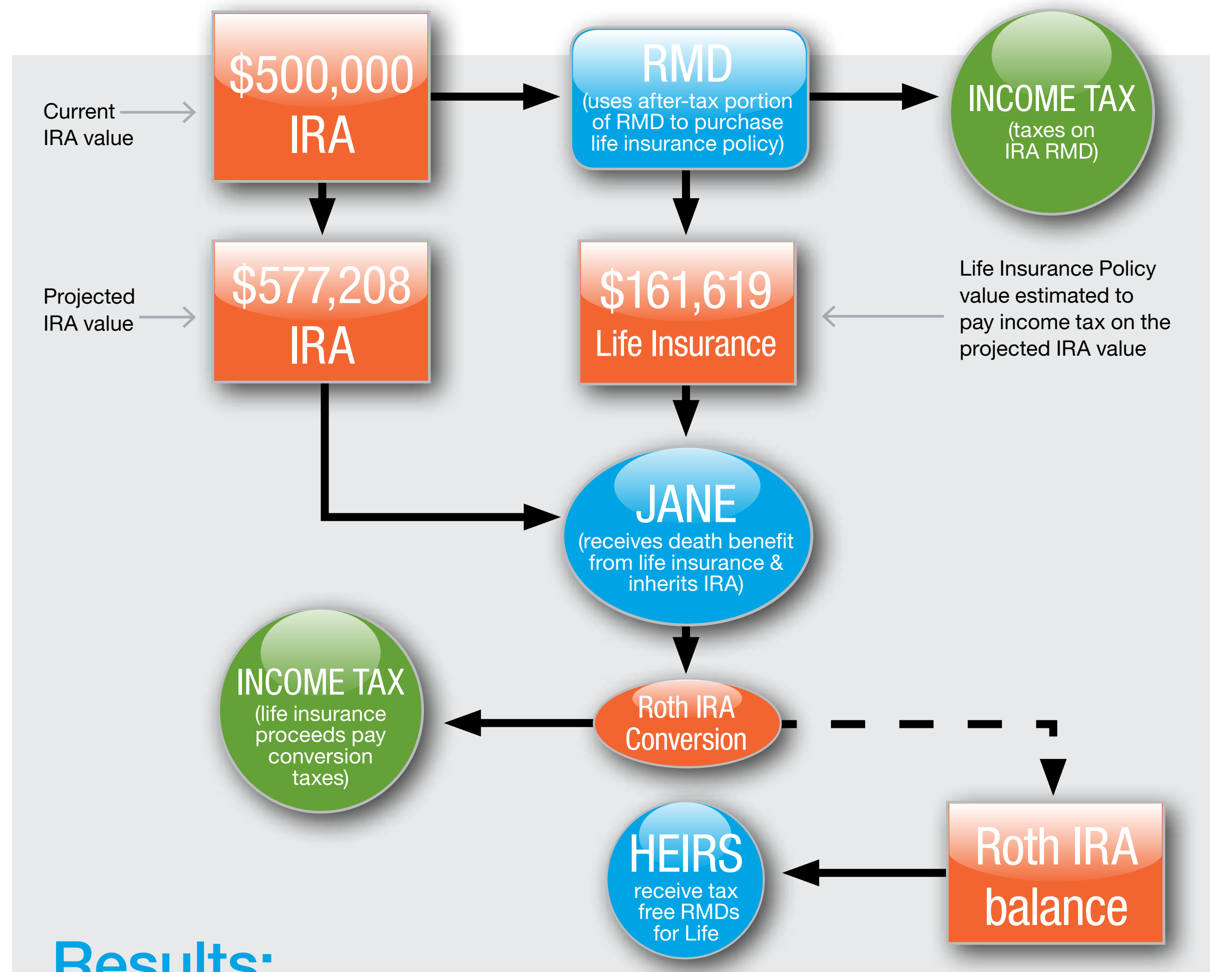
John age 70 - Survives to age 80

Jane (wife) age 65 – Survives to age 85

IRA balance $500,000

IRA annual return 6%

Income tax rate 28%



Results:

- When Jane inherits the IRA and the death benefit from the insurance policy she uses the proceeds from the death benefit to pay the income taxes incurred with converting the Traditional IRA to a Roth IRA.
- After the conversion Jane can enjoy these tax advantages: no RMDs, tax-free withdrawals (after the five year tax period) and tax-free transfer to her heirs. Also, her heirs would pay no income taxes on any distributions from the inherited Roth IRA.

IRA Maximization Strategies Summary:

Beneficiaries for the IRA and Life Insurance Policy

IRA Maximization Strategies	IRA Beneficiary				Life Insurance Beneficiary			
	Spouse	Child	Grandchild	Charity	Spouse	Child	Grandchild	Charity
Tax Offset		✓	✓			✓	✓	
Tax Elimination				✓		✓	✓	
Legacy Enhancement		✓	✓			✓	✓	
Multi-Generational			✓			✓		
Spousal Roth IRA	✓				✓			

The chart above is a summary of the five IRA Maximization strategies showing who the beneficiaries are for the IRA and Life Insurance policy.

Please note: For the Tax Offset, Tax Elimination and Legacy Enhancement strategies the Child or Grandchild can be the beneficiary for the IRA or Life Insurance policy.

You've successfully put in the hard work planning, saving and investing in your IRA. Now continue that success by getting with your financial advisor to help you with an **IRA Maximization strategy** that best fits your wealth transfer needs.

Important Notes:

These pages depict certain estate planning options for IRA accumulation and distribution. Inclusion of these options does not constitute a recommendation of that option over any other option.

Property generally passes first by deed, next by contract, and then as directed in the decedent's will, implementing any of these strategies may entail changing asset ownership, altering beneficiary designations, or revising your will(s).

Estate planning intentions may change in the future; you should compare your actual results to your original objectives, discuss the information with your advisor(s), and make appropriate adjustments as necessary.

Case studies and benefit values represented 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.

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.