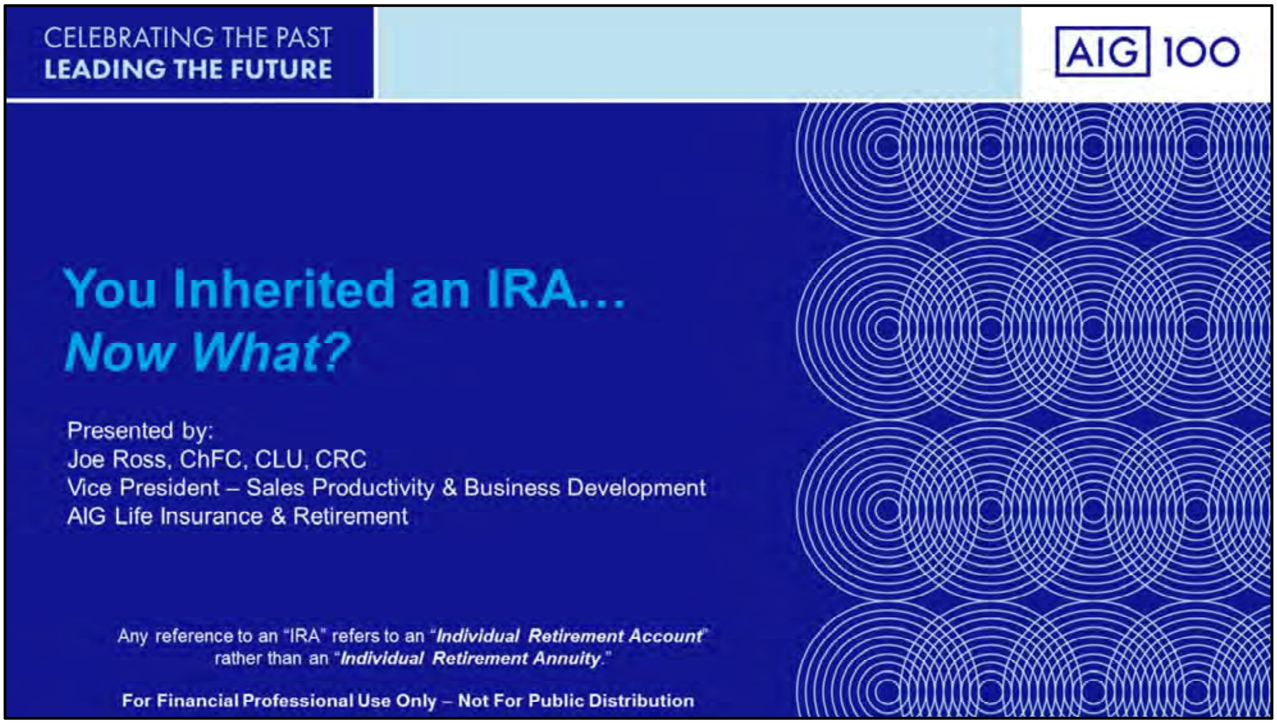
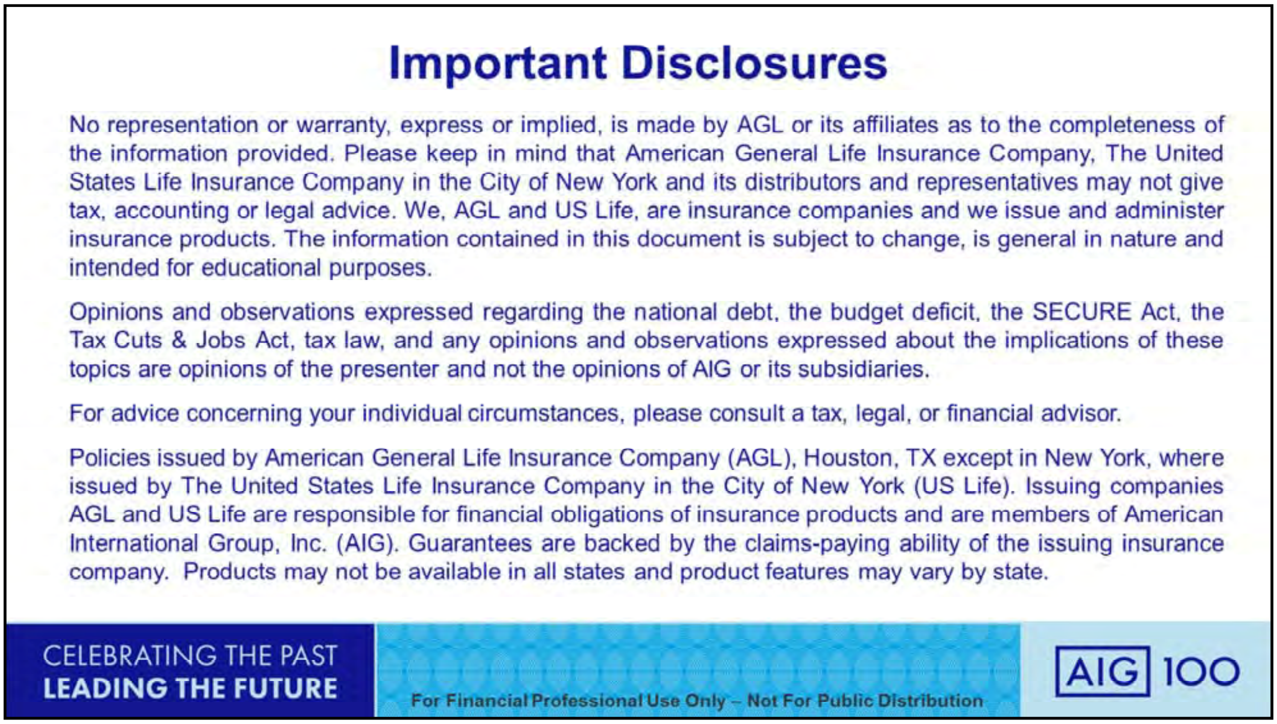


Hello… today let's talk about an entirely new opportunity brought-about by ***The SECURE Act***.

As we move forward, many people will inherit IRAs. But under ***The SECURE Act***, what happens next, and what options do you have as the IRA beneficiary?

Let's see how it works, and where it fits.

As a footnote, please be aware that any reference to an IRA in this presentation refers to an ***"Individual Retirement <u>Account</u>"*** rather than an ***"Individual Retirement Annuity."***



Before we get started, please review these important notes about today's discussion.

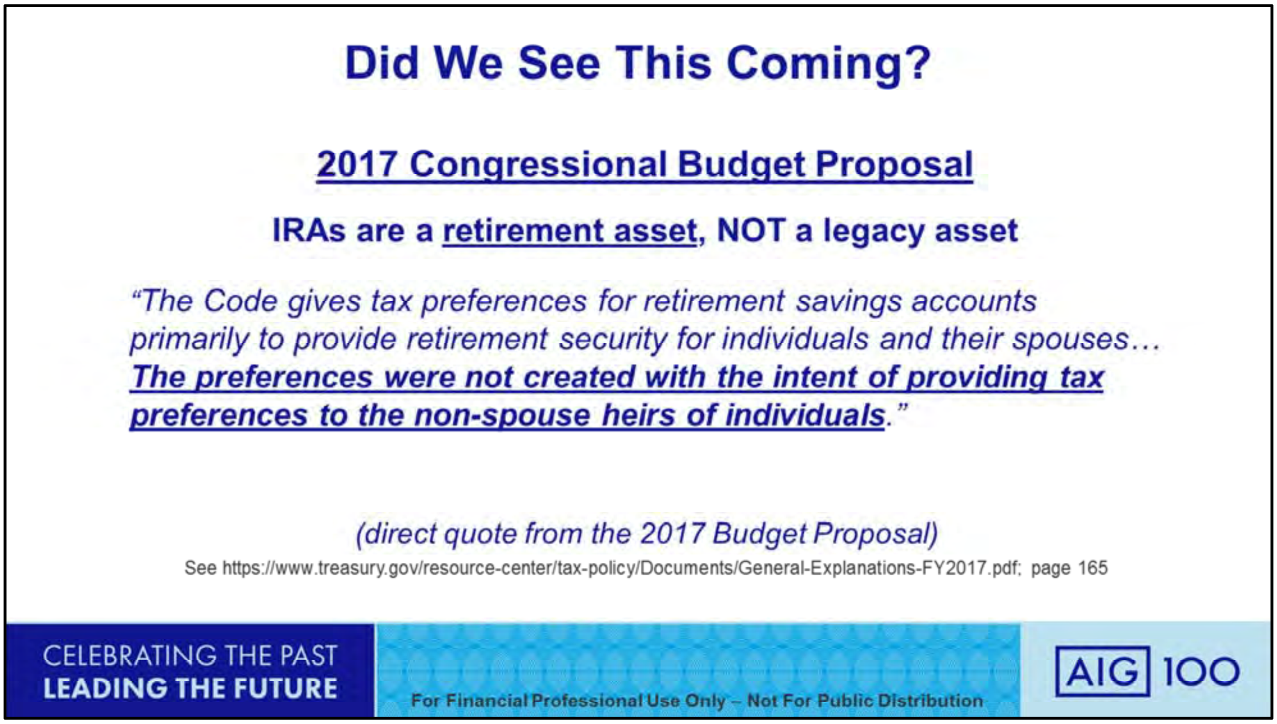
But now the world has changed again, and ***The SECURE Act*** has made some notable changes. In fact, it's being considered the most sweeping retirement legislation in a long time.

In addition to encouraging retirement savings for small-businesses, ***The SECURE Act*** also made some changes to IRAs. Here are a few key points:

- Prior to ***The SECURE Act***, you were NOT allowed to contribute to an IRA after age 70½, even if you had earned income. This was always puzzling because several other retirement plans allow contributions after age 70½, up until the employee separates from service *(typically at retirement)*. ***The SECURE Act*** now allows IRA contributions past age 70½ , putting it on a more even keel with other retirement plans. But note that you can only continue contributing to your IRA if you have earned income.
- RMD's, which used to begin the year after turning 70½, now don't need to begin until April 1 of the year following the year you turn age 72 *(this applies if you turned 70½ in 2020 or later).*
- The third thing we'll talk about today, and perhaps the most consequential, is that ***The SECURE Act*** <u>eliminated</u> "stretch IRAs" for non-spouse beneficiaries (typically kids and grandkids) *(some exceptions apply)*. Under the new rules, Inherited IRAs must be fully distributed within 10 years of the date they're inherited. And, in traditional IRAs, where all of the contributions have been done on a pre-tax basis, the entire IRA account will be taxable. This could have HUGE implications for beneficiaries inheriting large IRAs. Keep in mind that, under ***The Secure Act*** there are no RMDs during the first 9 years after an IRA is inherited. ***The SECURE Act*** simply stipulates that all of the money needs to come out of the inherited IRA within 10 years. So, many investors will wait the full 10 years, preserve their tax-deferral as long as possible, take all of their money out of the Inherited IRA at the last minute, and pay taxes on the entire amount in one tax year. Imagine inheriting a $2 million IRA. During the next 10 years it grows to $3 Million. And then you pay tax on the entire $3 Million in one year. What will your tax bracket be in that year?

*(Be aware that exceptions exist to the 10-year rule under **The SECURE Act** for certain IRA beneficiaries.)*

Throughout the balance of this presentation, when we refer to IRA beneficiaries, we're referring to ***"Designated Beneficiaries"*** and <u>we're not referring to</u> ***"Eligible Designated Beneficiaries."***
Designated Beneficiaries are the group subject to the new 10-year rule.



Did we see this coming… the elimination of the IRA Stretch provision?

Well, if you look back at the 2017 Congressional Budget Proposal (as well as in prior years), you'll see that the IRS has taken the position that IRAs are a <u>retirement asset</u>, NOT a legacy asset.

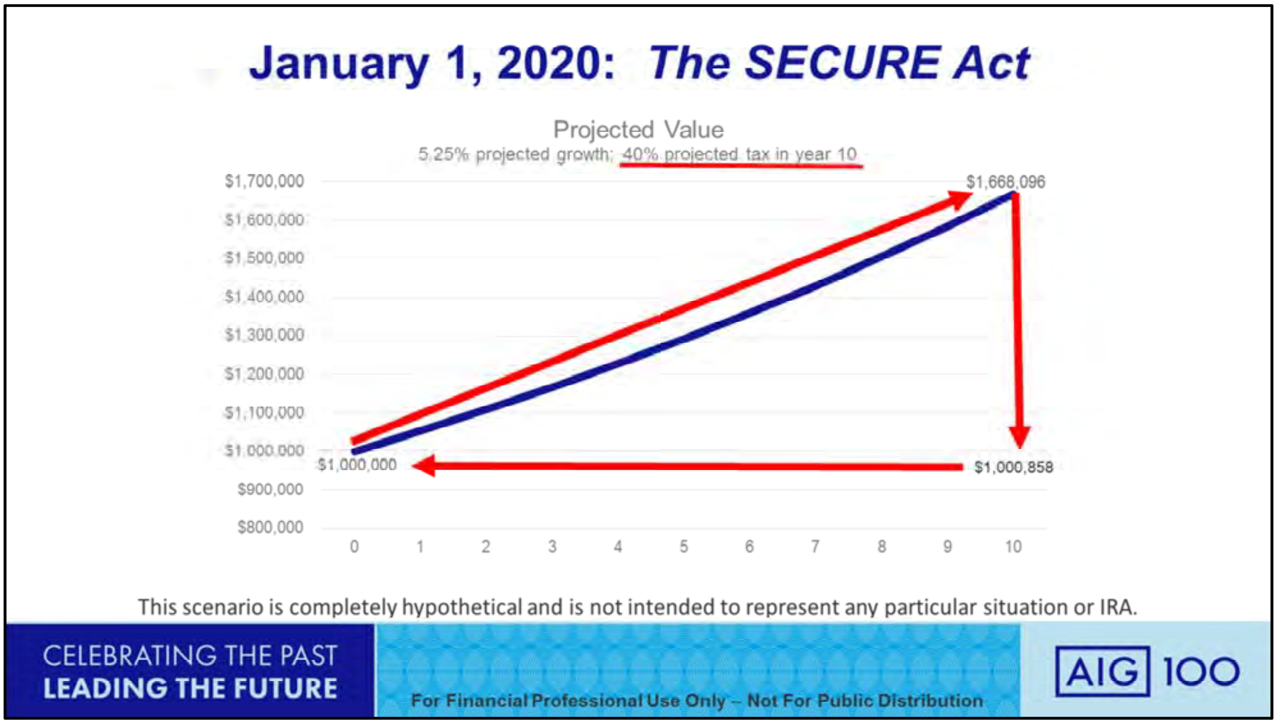
In fact, they specifically wrote that: ***"The Code gives tax preferences for retirement savings accounts primarily to provide retirement security for individuals and their spouses… The preferences were NOT created with the intent of providing tax preferences to the non-spouse heirs of individuals."***

So clearly, for many years, Congress has been cautioning us that IRA Stretching was at-risk of disappearing.

See https://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2017.pdf; page 165

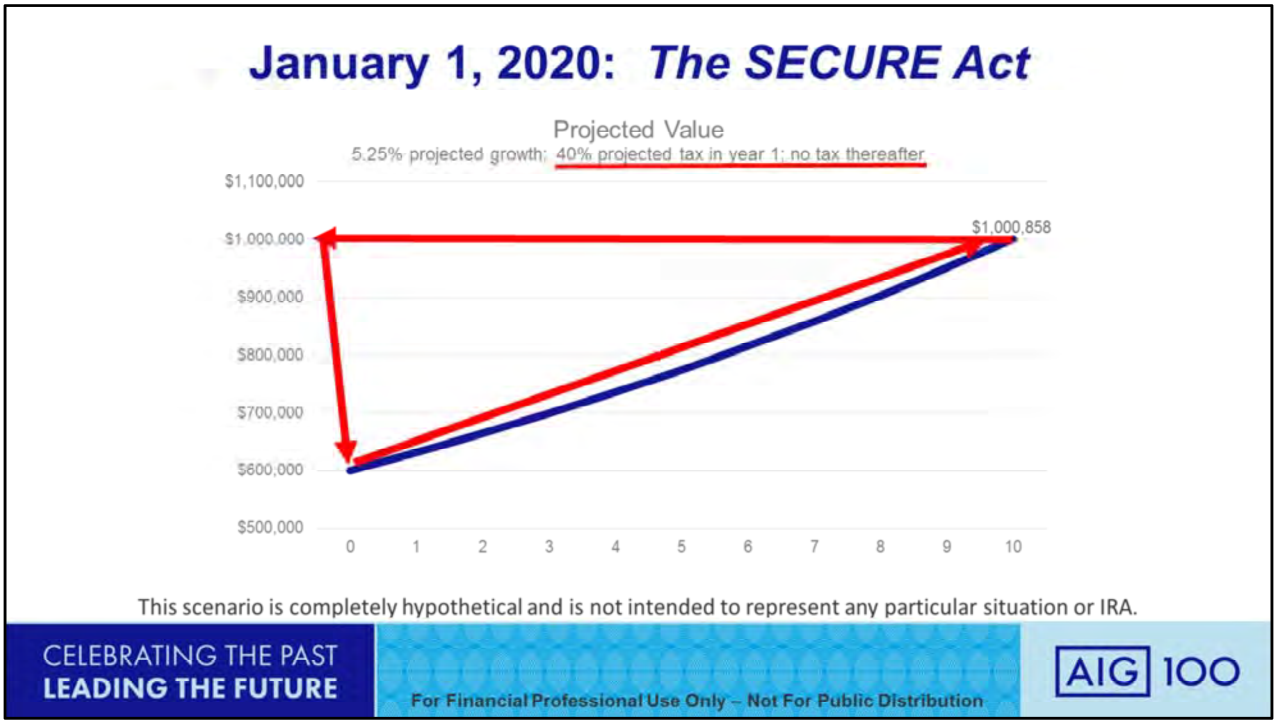
The IRS considers IRAs to be a "retirement asset", not a "legacy asset."

Let's explore how ***The SECURE Act*** might affect inherited IRAs in the future.



Now let's talk about what ***could happen*** to an inherited IRA.
Here's what could happen to a hypothetical $1,000,000 inherited IRA if it was allowed to grow at a hypothetical rate of 5.25% for 10 years, and then the entire IRA is distributed and taxed in the 10th year. *(In the 10th year this example assumes the 5.25% growth is added, increasing the IRA to $1,668,095, then the 40% tax is subtracted, bringing the balance down to $1,000,858.)*

It's interesting to note that 5.25% is an approximate break-even rate of return.
If you continued the tax-deferral for the entire 10 years and took the money out of the Inherited IRA in the 10th year, the after-tax value is almost identical to the starting value from 10 years earlier.
So you'd need something greater than a 5.25% compound annual rate of return (after all fees and charges) to end up with more money than you started with.

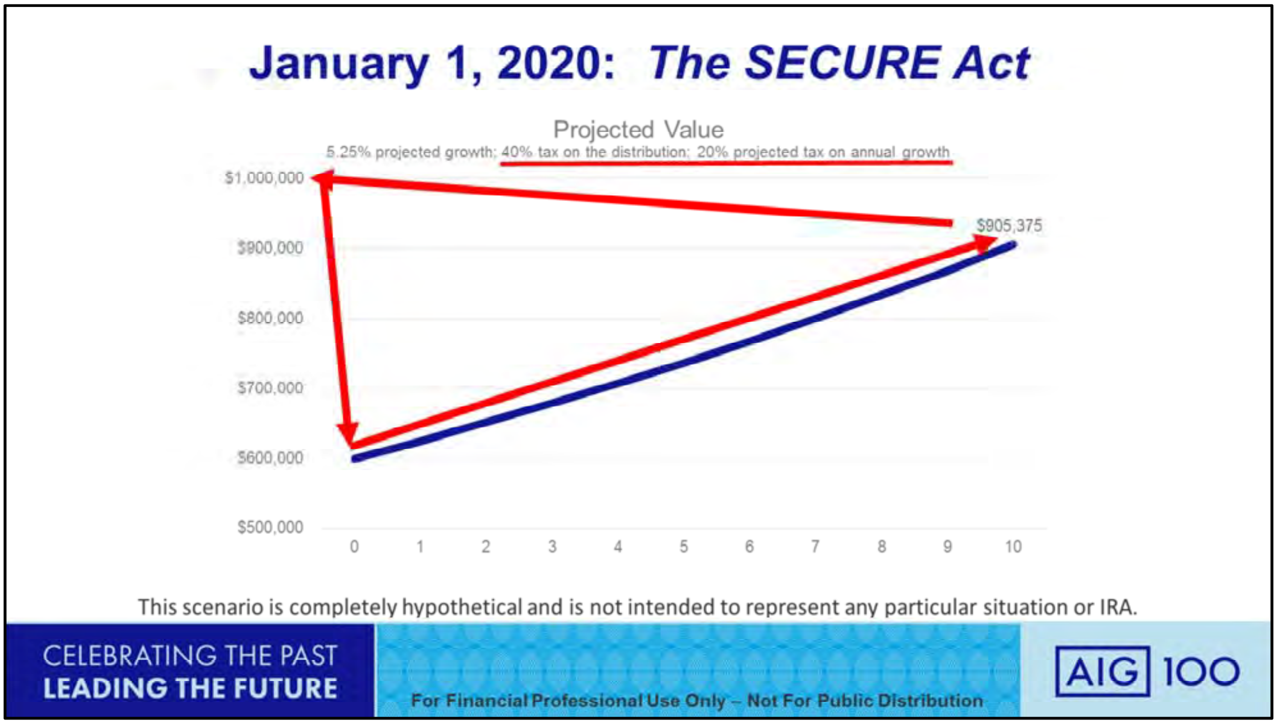


So you might be thinking to yourself: "Maybe it makes more sense to pay the taxes up-front, and then let it grow."

At first glance it looks like you end up in the exact same place.
In this example we subtracted the 40% tax right up front, which takes the initial $1 million value down to $600,000.
Then we projected the $600,000 to grow at 5.25%.
We ended up at about $1 million.
So, at this point it doesn't look like there's a difference between paying the tax in the first year or paying it in the 10th year.

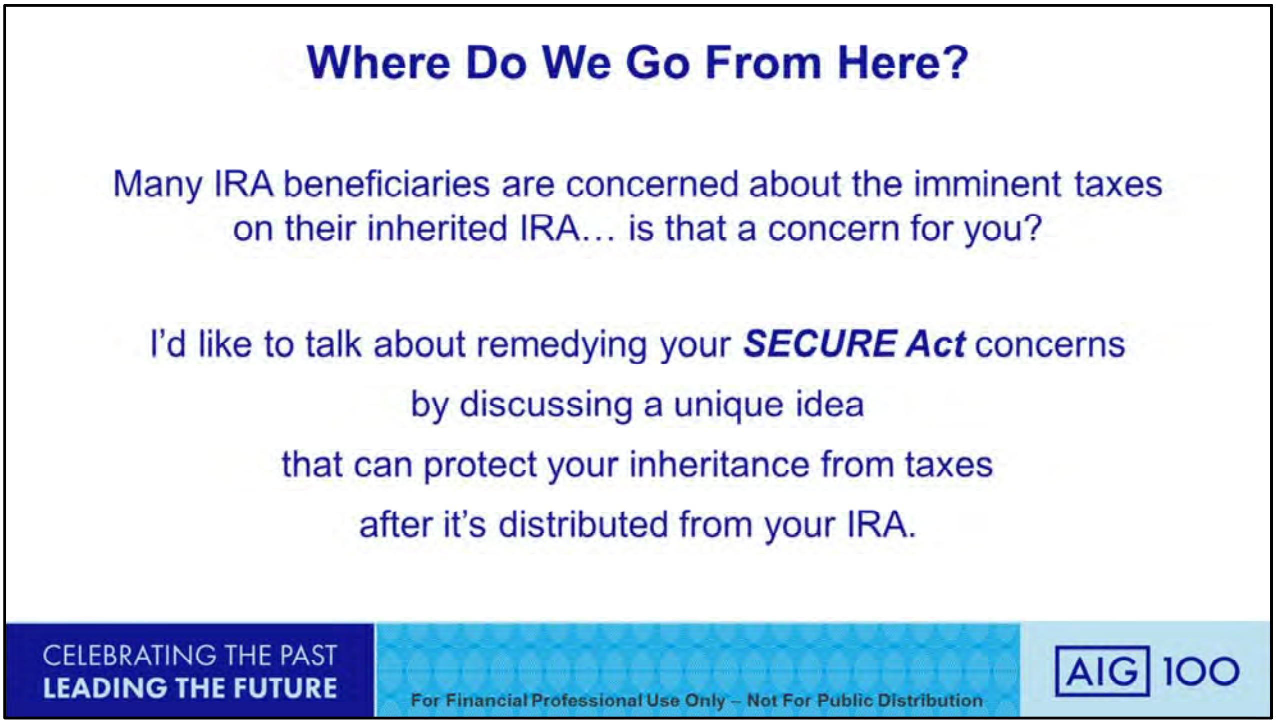
What are we missing?

When you distribute all of the funds from the IRA in the first year, you no longer benefit from the tax deferral!



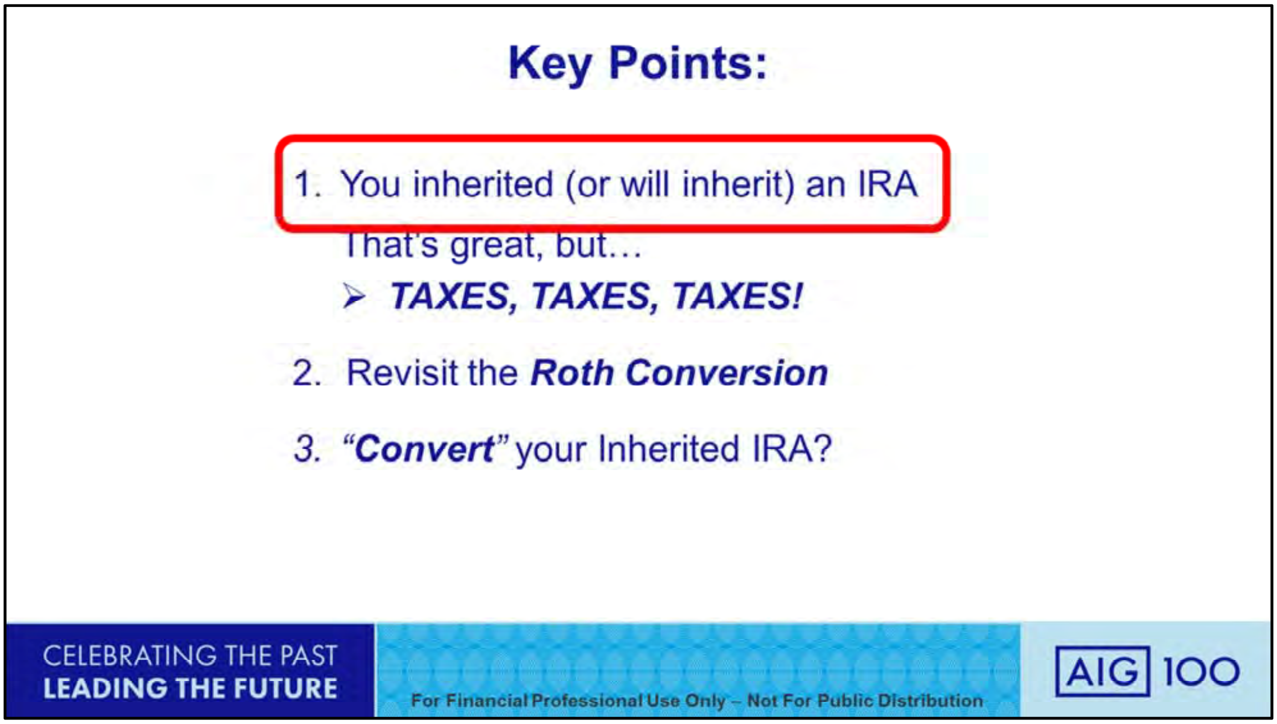
Without the benefit of tax-deferred growth, your post-distribution growth is subject to annual income tax.
If we apply the same 40% tax rate to the initial distribution from the IRA, and a 30% tax rate on the growth, and using the same 5.25% return, the account only grows to a projected value of $860,000… about $140,000 (or 14%) less than if you had taken full advantage of the 10 years of tax deferral.

So the 10 years of tax-deferral is generally beneficial, but if you don't garner more than a 5.25% rate of return during the 10 years of deferral, all of your gains could end up being lost to taxes.



So where do we go from here?
I visit with a lot of people, and lately I'm hearing a consistent theme:
May IRA beneficiaries are concerned about the imminent taxes they'll owe on their inherited IRA within 10 years of their inheritance… Is that a concern for you?

That's why I'd like to visit with you today.
I'd like to talk about remedying your ***SECURE Act*** concerns by discussing a unique idea that can protect your inheritance from taxes after it's distributed from your IRA.



So let me describe what we'll discuss today:

1. First we'll talk about the concept that either you inherited (or you will inherit relatively soon) an IRA. That's good news and bad news. The good news is that you inherited it. The bad news is that it comes with a lot of potential taxes.

2. Then we'll revisit the concept of Roth Conversions; and finally

3. We'll talk about whether an IRA beneficiary can do a Roth Conversion of their inherited IRA and, if not, what options they have.

So if you're ready, let's get started by talking aout point number 1… You inherited… or will inherit… an IRA.

First let’s talk about “the good news and the bad news” about your IRA inheritance.

1. You Inherited An IRA

A. *The SECURE Act*
- Inherited IRAs must be fully distributed… and taxed… within 10 years
- No more "***stretching***" *(some exceptions apply)*

B. Lump-sum taxes in the 10th year could be significant:
- A significant 1-year increase in AGI… IRA value could nearly double!
- You could be pushed into a higher marginal tax rate
- Could lose 35% – 40% to Federal income taxes
- Could lose even more to State income taxes

C. What are you gonna do with the $$$ ***after*** you pay the taxes?
- Reinvest it into your Non-Qualified portfolio?
- Keep paying taxes on the growth every year?

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AIG 100

The good news is that you inherited a significant financial asset.

However, under ***The SECURE Act***, the entire value of your inherited IRA must be distributed… and all of the distributions taxed… within 10 years of inheriting the IRA.
So there's no more "stretching." *(some exceptions apply)*

You might ask "***What's IRA Stretching?***"
Under the rules prior to ***The SECURE Act*** the beneficiaries were able to take small distributions from their inherited IRAs, spread out over their life expectancy, and defer much of the tax for a very long time.
But under ***The SECURE Act***, IRA Stretching is no longer allowed for most beneficiaries *(some exceptions apply)*.

So what might people do with their inherited IRAs?

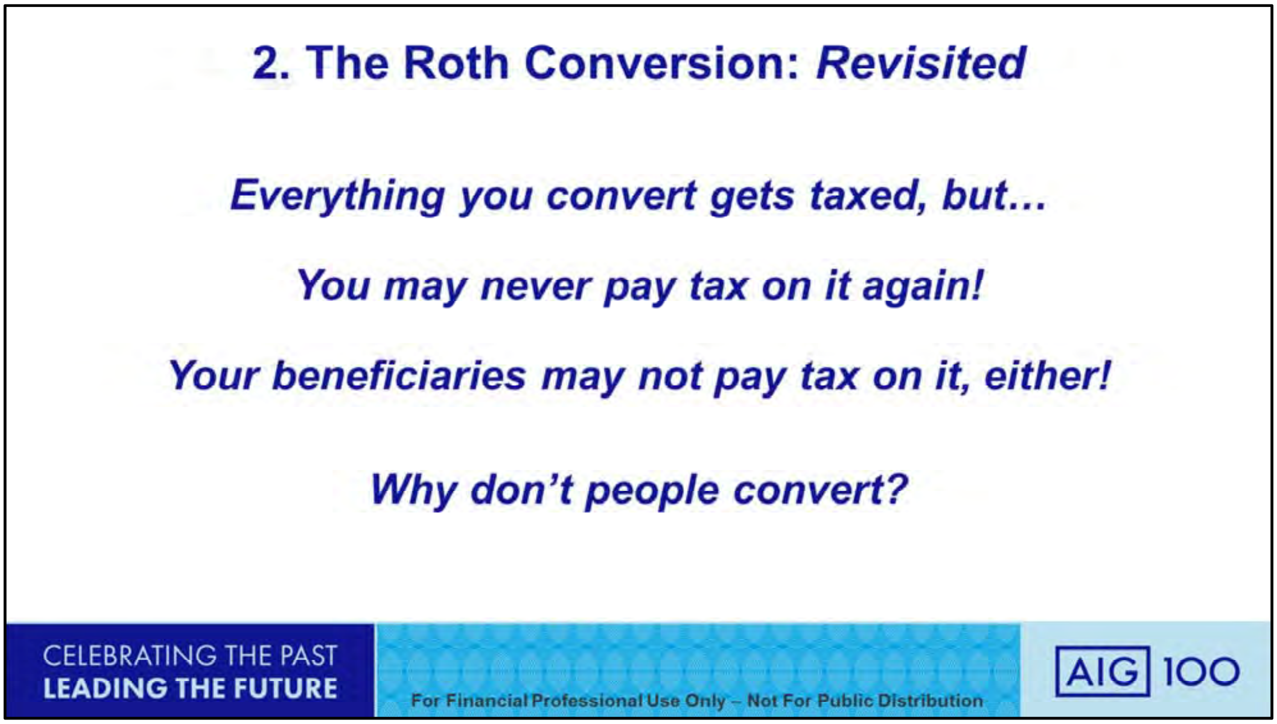
Well, there's no requirement under ***The SECURE Act*** to take out any distributions during the first 9 years after inheriting the IRA. So many beneficiaries might just leave it alone and let it grow, deferring the taxation as long as possible.
But that means ALL OF IT must be distributed in the 10th year.
Imagine if you inherited a $1,000,000 IRA. If it grew by just 6% per year, ten years later it would be worth nearly $1.8 million.
Imagine adding $1.8 million to your taxable income 10 years from now. What tax bracket would you be in? You obviously could be facing a very hefty tax bill, and for reasons you might not be thinking about.
Adding that much money to your taxable income in one year could easily push you into a higher marginal tax bracket.
Consequently you could lose upward of 35% to 40% of the inherited IRA to Federal income taxes alone, and you could have state income taxes on top of that!

And then what happens?
Let's say you paid 35% tax. You'll have around $1.2 million left.
Will you reinvest it in your non-qualified portfolio?
If you do that, will you keep paying taxes on the growth every year, potentially for the rest of your life?

As you can see, the good news is that you inherited a nice financial asset.
But the bad news is the taxes you'll owe, and that can be a very difficult pill to swallow.

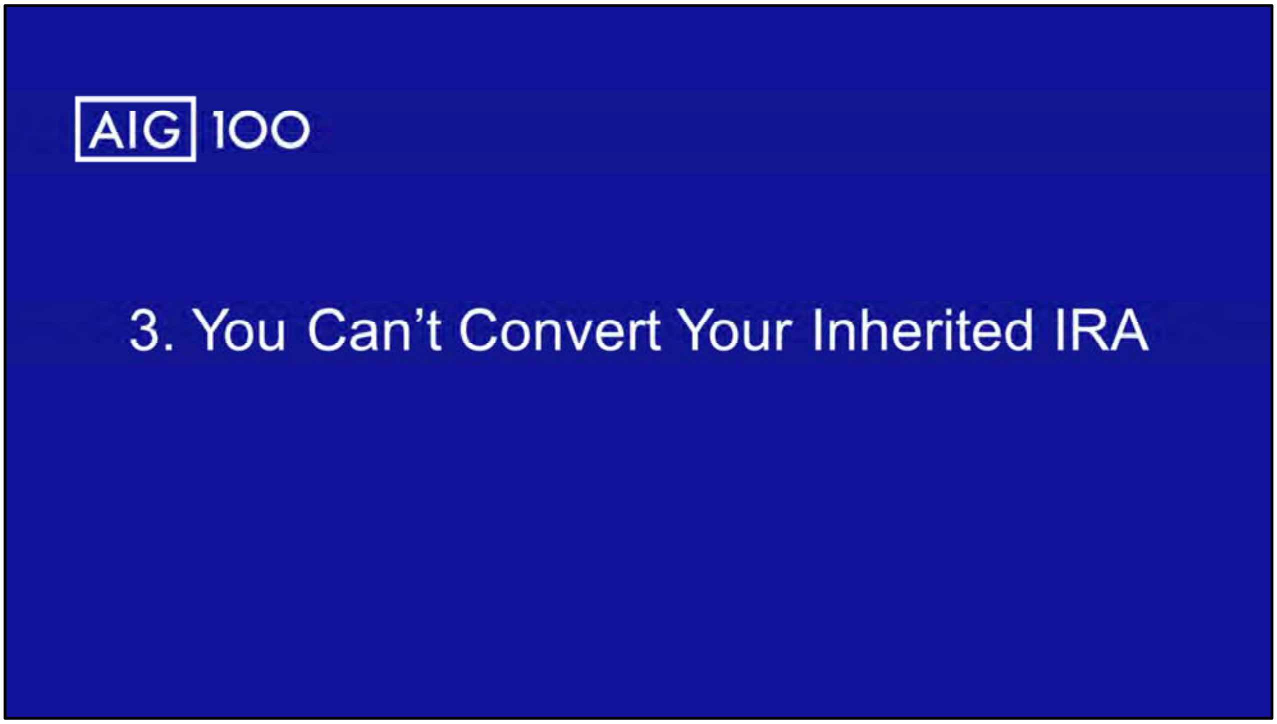
2. The Roth Conversion: *Revisited*

Next let's revisit Roth Conversions.



The challenge of a Roth Conversion is that you must pay taxes on the amounts converted.
But once it has all been taxed and converted, you may never pay taxes on that money again.
That's because all growth inside of a Roth IRA occurs income tax deferred; all distributions are income-tax-free; and there are no requirements to take distributions from a Roth IRA.

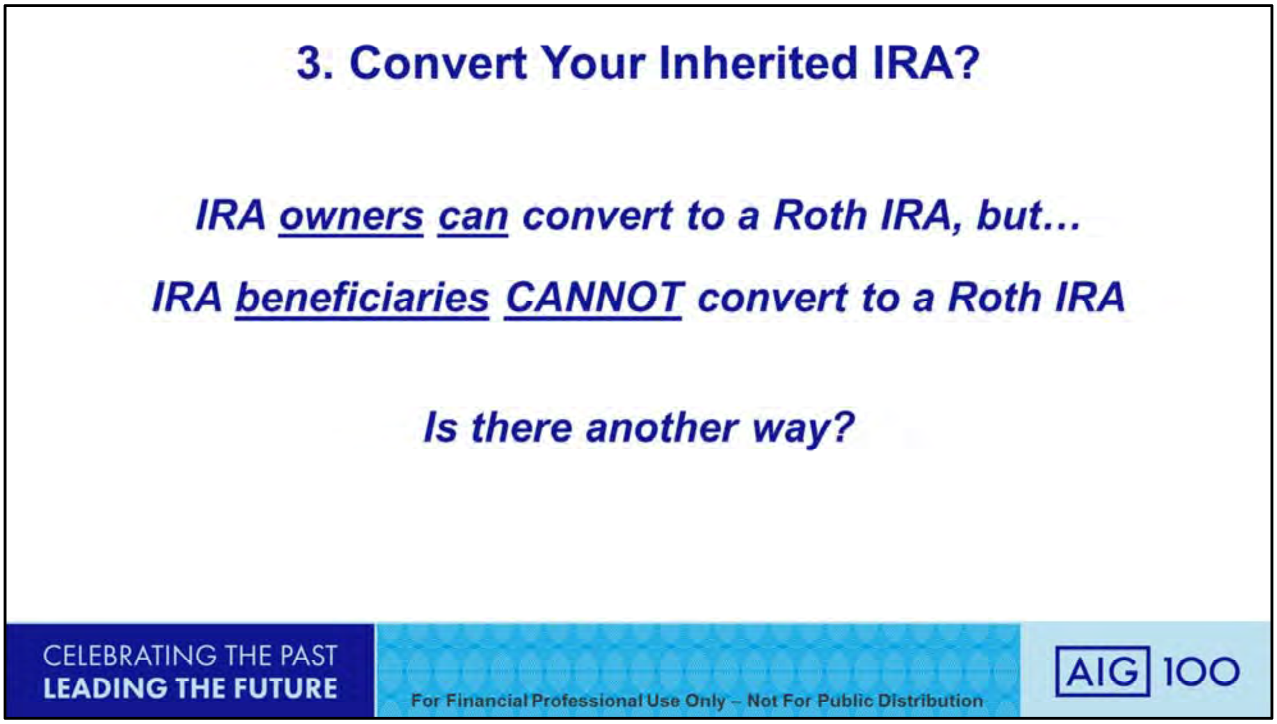
So the question is: If converting to a Roth IRA is such a good idea, why don't people do it?
Often the answer is: Because they don't want to pay the tax.



We know that IRA owners can do Roth Conversions anytime they want.
So why don’t they?

Because they’re reluctant to pay the taxes caused by the conversion.

Many of them don’t realize that they can implement a strategy of consistent, ongoing annual “partial conversions” to help control the total taxes… they don’t realize it’s NOT an “all or nothing deal.”



But what about IRA **beneficiaries**?

Can an IRA beneficiary do a Roth Conversion of their inherited IRA?

Unfortunately, whereas IRA owners can do Roth Conversions, IRA beneficiaries **cannot**.

But is there another way?

Is there an alternative that an IRA beneficiary can pursue that can give them something similar, especially if they can benefit from additional life insurance?

Let's see.

The Life Insurance Alternative

3 Easy Steps:

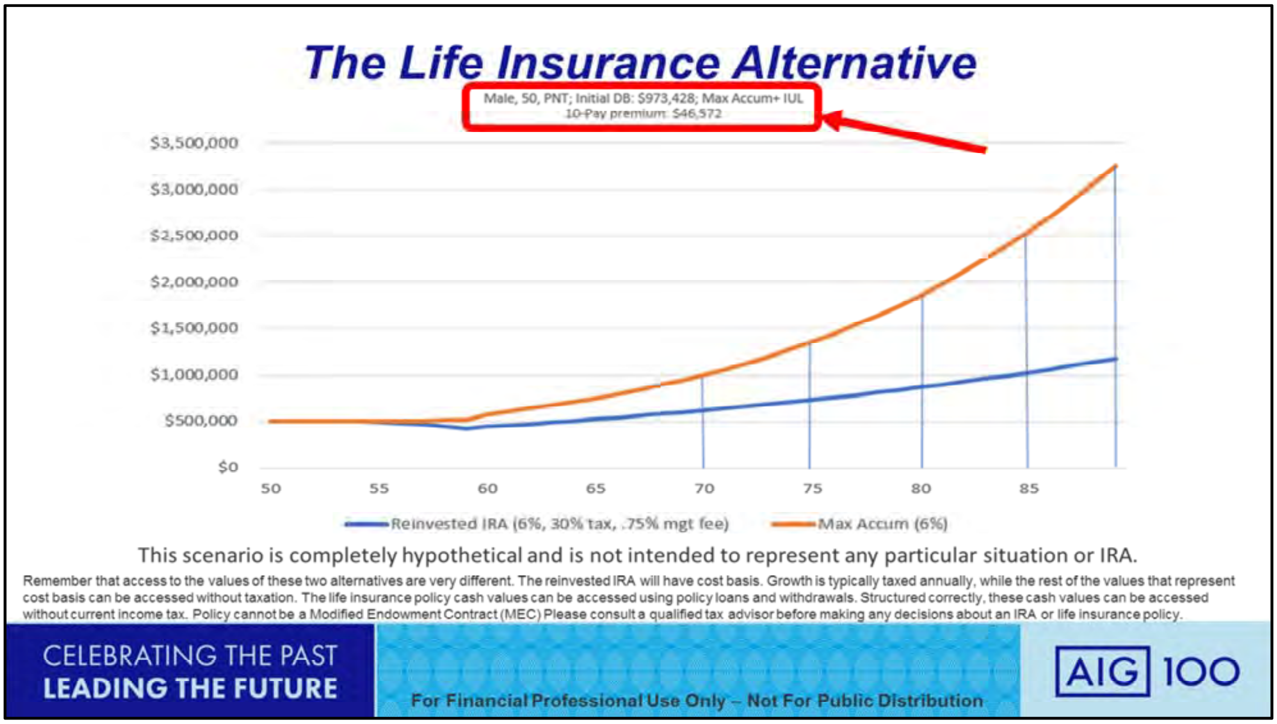
1. 10 equal annual distributions to liquidate the Inherited IRA
2. Apply after-tax distributions as premiums to a Life Insurance Policy
3. Compare the results

What if, instead of paying tax on the distributions and doing a Roth Conversion *(which they can't do)*, they did this:

First, when an IRA is inherited, the beneficiary could take 10 equal annual distributions designed to liquidate the Inherited IRA over the 10 year period of time.

Second, apply the after-tax value of these distributions from the inherited IRA as premiums paid into a life insurance policy. This gives the beneficiary the additional life insurance they need, and an opportunity for the cash value to grow income-tax deferred, without any RMD requirements, and without any income tax to the subsequent beneficiaries upon the death of the initial beneficiary.

Third, compare the projected life insurance account values vs. reinvesting the distributions from the inherited IRA into taxable non-qualified investments.



Here's a simple graph showing the comparison of account values using AIG's Max Accumulator+ IUL policy projected at an assumed interest rate of 6%.

As you can see in the graph title, I assumed a 50-year-old male, preferred-non-tobacco inheriting a $500,000 IRA from his parents.

Based on the earnings in the IRA, we were able to project liquidating it over a 10 year period of time… 10 equal distributions.

After subtracting the income taxes from the distributions, we projected an annual after-tax distribution of $46,572 which could be used for life insurance premiums for 10 years, at which time the inherited IRA would be empty.

When we solved for the minimum death benefit using Max Accumulator+ IUL, the death benefit was $973,428.

In the blue line of the graph you can see the projected value of the IRA. During the 10 years of liquidation the IRA was assumed to grow at a constant 6% rate with no taxes on the growth that remained inside of the IRA. The funds distributed from the IRA were taxed at 30%, and assumed to be reinvested into a taxable account, which was also projected at a 6% growth rate with a 30% tax rate. I also assumed a 0.75% (75 basis points) asset management fee, and continued the projections beyond the initial 10 years.

In the red line you can see the Account Value of the Max Accumulator+ IUL policy. During the first 10 years of the comparison, the Max Accumulator+ Account Value was added to the remaining balance in the IRA on an after-tax basis… in other words, as if all of the remaining money in the IRA was distributed and taxed in that year. The Max Accumulator+ IUL is projected at a 6% level interest rate in all years, and includes the 0.65% Account Value Enhancement in years 6+, for a total projected interest rate of 6.65% in years 6+.

As you project these values out, you can see the difference in projected values… the Max Accumulator+ over the reinvested after-tax IRA funds.
At age 85 *(approximate average life expectancy)*, the Reinvested IRA account is projected to be about $1 million, while the projected Max Accumulator+ policy is projected to have about $2.5 million.

- Even if you liquidated the entire life insurance policy value and paid 40% tax on the gains in the policy, the resulting after-tax value would be almost $1.7 million.
- And you can access a large portion of the account value through tax-free policy loans and withdrawals, and leave the residual value as a legacy.
- And the life insurance death benefit… the legacy left to the family... is always equal-to or greater-than the account value. So if it turns out that you don't actually need to access this money during retirement, it can become a significant family legacy.

This example suggests a very compelling argument for liquidating the Inherited IRA over 10 years and, instead of reinvesting the after-tax distributions into a non-qualified portfolio, it might make sense to use the after-tax distributions as premiums into a life insurance policy.

The Life Insurance Alternative

1. Your inherited IRA is a windfall, but…
   - ***TAXES, TAXES, and more TAXES!***
2. As an IRA Beneficiary, you must pay taxes on the entire account balance *(just like you'd have to do for a Roth Conversion)*, but you cannot "convert" those Inherited IRA distributions to a Roth IRA.
3. Consider Life Insurance!

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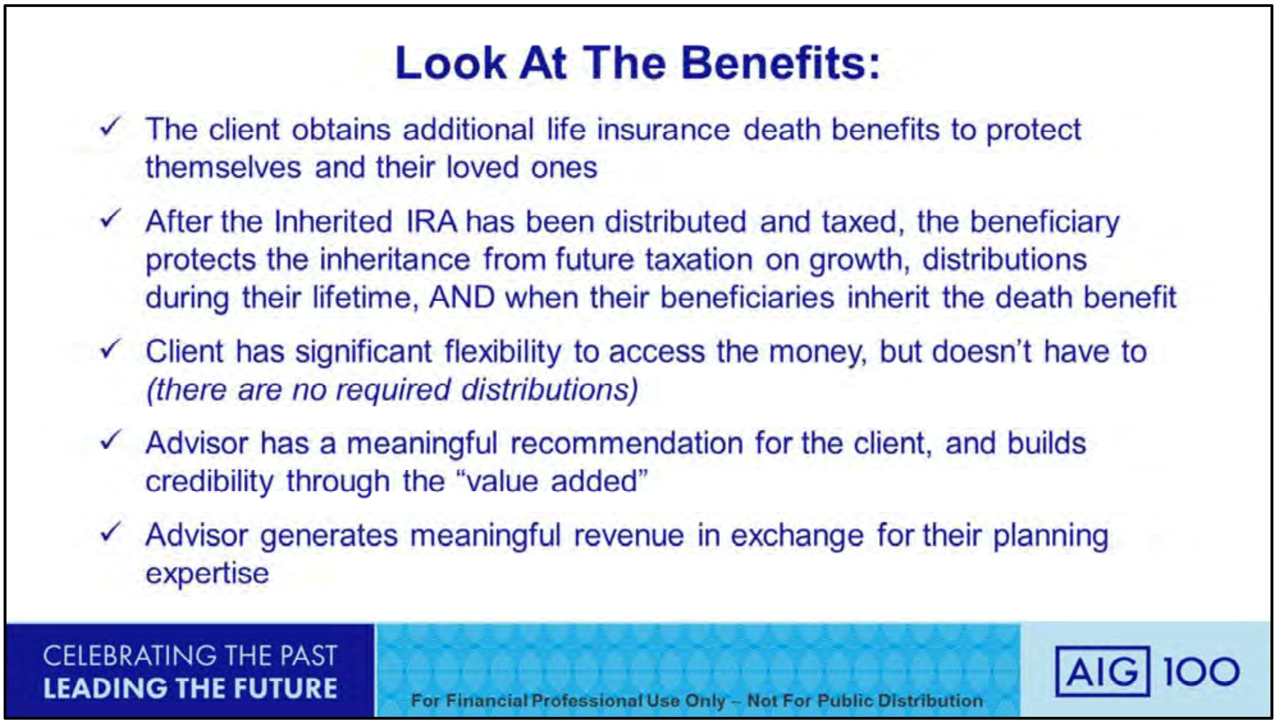
We discussed "the good news and the bad news" about inheriting an IRA:
- The good news is inheriting a windfall…
- The bad news is taxes, taxes and more taxes.

As an IRA beneficiary, you must pay taxes on the entire account balance, just like you'd have to do for a Roth Conversion, but you can't convert those Inherited IRA distributions to a Roth IRA.

To get something similar, you might want to consider Life Insurance!

Let’s briefly review the advantages of Life Insurance



Here are just a few of the significant benefits of using life insurance in this situation:

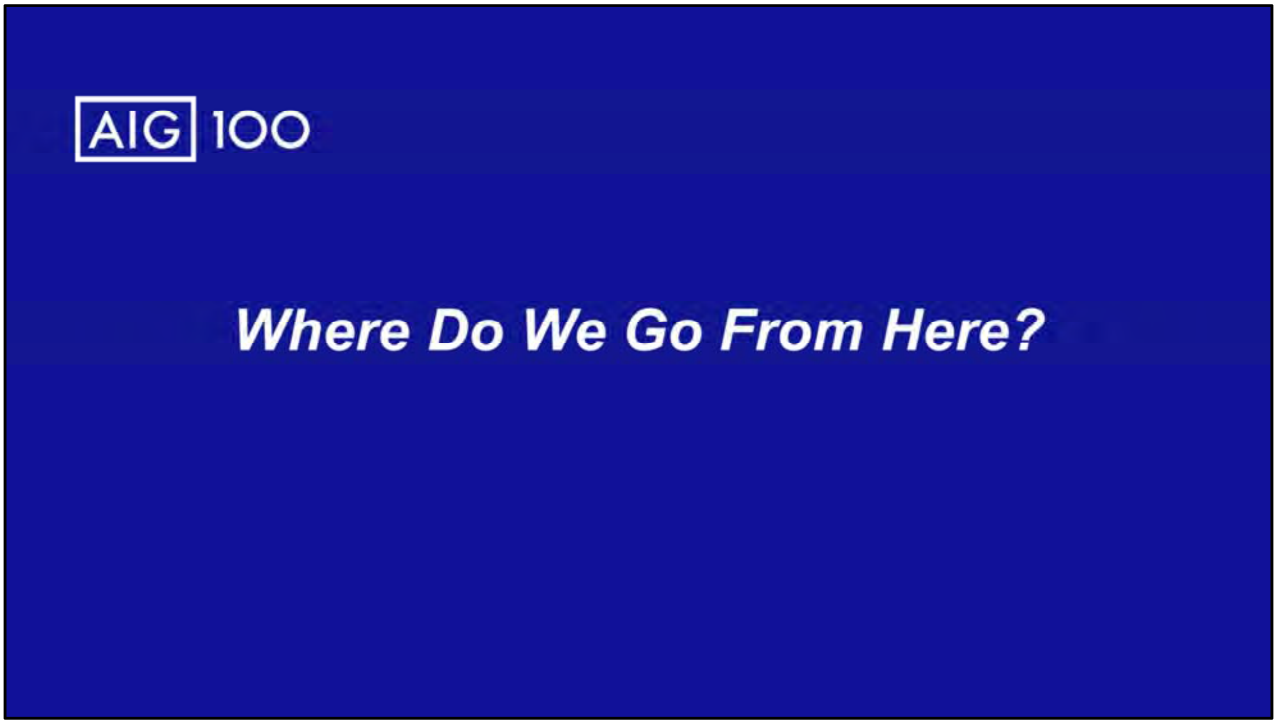
✓ The client obtains additional life insurance death benefits that protect themselves and their loved ones

✓ The client has the potential to protect their inherited IRA from all future taxation (after 10 years), during distribution to themselves **AND** to their beneficiaries

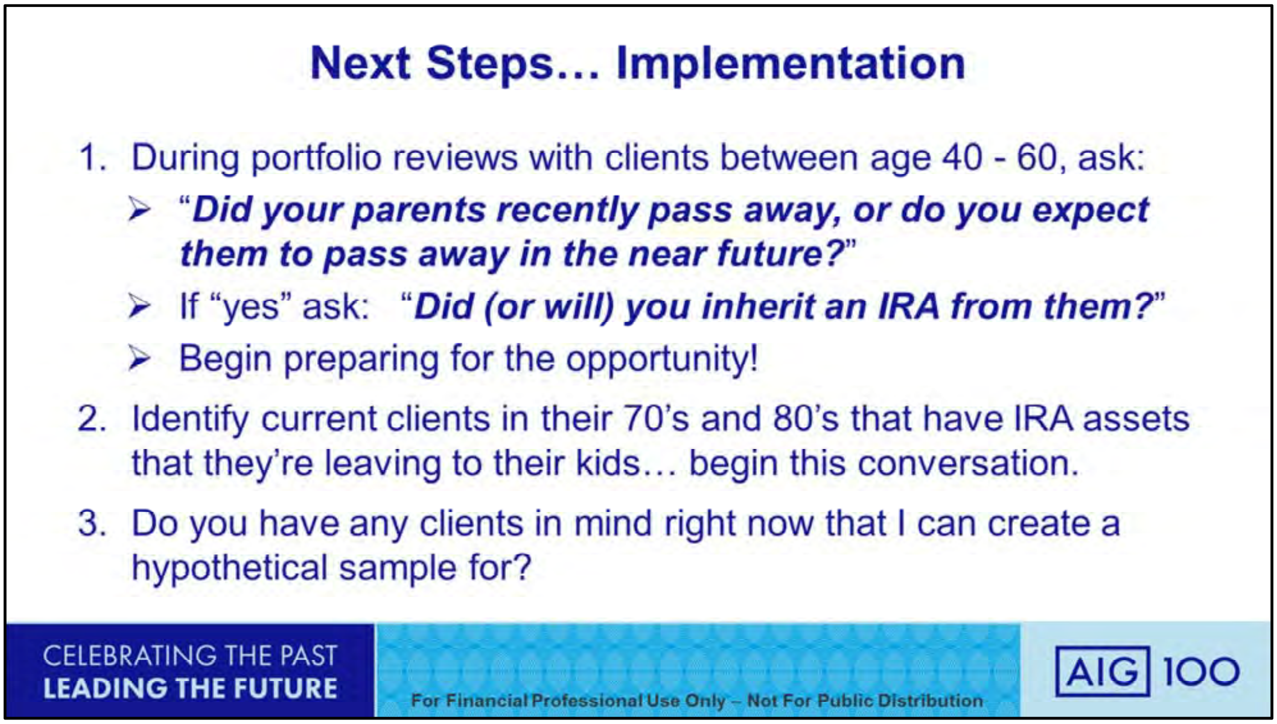
✓ The client has significant flexibility to access the money, but doesn't have to… there are no required distributions.

✓ The advisor is making a meaningful recommendation for the client, and builds credibility through the "value added" benefits of introducing the idea.

✓ And the advisor generates meaningful revenue in exchange for their planning expertise.



So where do we go from here?



What should we do next?
Let’s talk about implementation.

First, during portfolio reviews you have with clients between age 40 & 60, ask: ***“Did your parents recently pass away, or do you expect them to pass away in the near future?”***

If the answer to that question is “YES,”, then ask: ***“Did (or will) you inherit an IRA from them?”***

Start the discussions even <u>before</u> the parents pass away to be prepared for the opportunity.

Second, identify current clients in their 70’s and 80’s that still have IRA assets that they’re likely leaving to their kids. Begin this conversation with them. They may want to put some wheels in motion sooner rather than later.

Third, ask advisors if they have any clients in mind right now that I can create a hypothetical sample for.

Does anyone have any questions they'd like to ask, or thoughts they'd like to express about today's content?
If so, reach out to us and let us know.

Thanks for joining us for today’s discussion. I hope you learned a few things about ***The SECURE Act***, and some ideas you can discuss with your clients and their beneficiaries about alternative approaches that might help them reach their goals.

Here at AIG we’ll continue to provide you with the products, the services and the people that have become the hallmark of AIG’s reputation.

And I’d like to extend my thanks to all of you for everything you do to help your clients achieve and protect their lifetime of financial security.

Thanks for joining us, and have a fantastic day.