PROVEN ANNUITY SALES IDEAS

AMERICAN NATIONAL®

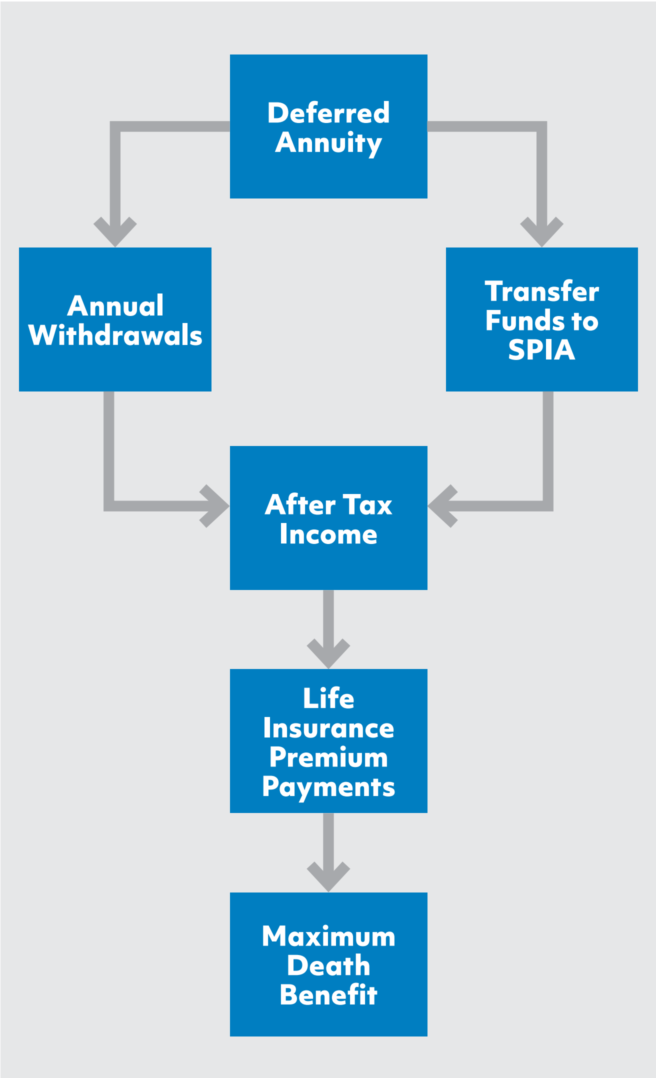
There are several ways to help guide clients to a financially secure retirement through the sale of an annuity. Steering individuals to the right plan can be a difficult task given that there are several different types to choose from.

This may present itself as a daunting task at first, the availability of many different options means that the client has the leeway to decide on the annuity that best suits their lifestyle and financial goals.

It is up to the agent to ensure that the client has all the information needed to make that decision when the time comes.

Deferred Annuities

Deferred annuities are one of the best places to grow assets tax-deferred. With tax-deferred growth, assets may grow more rapidly over a period of time than if the growth of those assets is taxed every year. Many individuals that are able to save also fully contribute to their retirement plans and IRAs. These individuals saved enough through their employer's qualified plans to have more than enough for retirement. Some will not need to take withdrawals from their deferred annuity. They may decide to pass on their deferred annuity to their children.



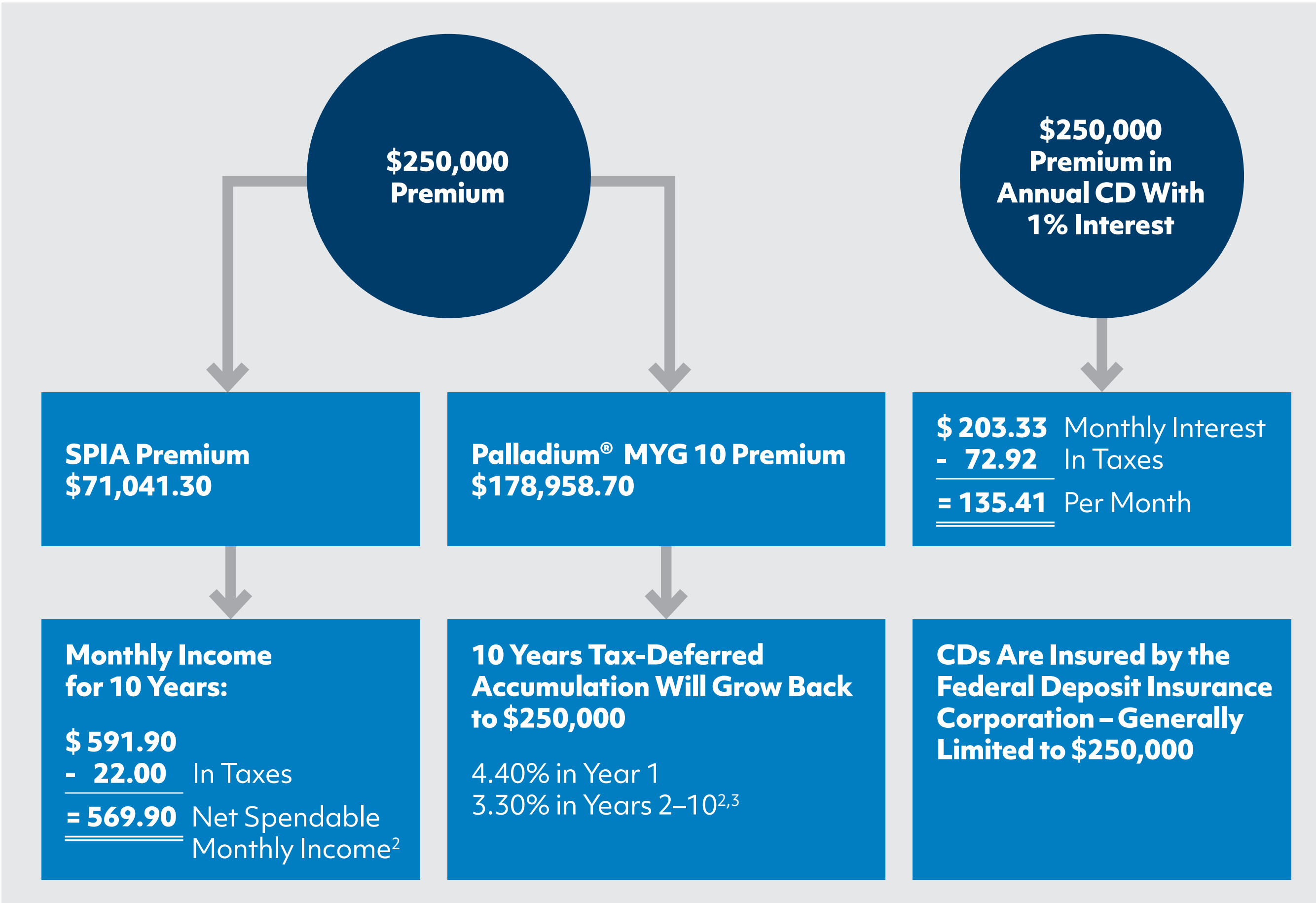
Annuity Wealth Transfer

For individuals who will not need their deferred annuities for retirement income, there may be a better way to use these funds to benefit their family with the Annuity Wealth Transfer concept. Deferred annuities are subject to both estate tax and built-in income tax for the beneficiary. This potential double-tax trap can greatly reduce what is available for the beneficiary.

First, determine the after-tax income that is available either through annual withdrawals from the deferred annuity or from transferring the deferred annuity to a single premium immediate annuity (SPIA). This will help ensure that funds will be available for the premium pay-in period of the life policy whether it is a lifetime premium or a limited-pay premium.

Once the after-tax income is determined, illustrations can be run to determine the maximum death benefit, and how to fund the life insurance policy, i.e. ten pay, lifetime pay etc. For individuals with taxable estates, an Irrevocable Life Insurance Trust (ILIT) should be used to hold the policy in order to avoid taxation of the death benefit. An ILIT allows present interest gifts of $15,000 per beneficiary to the trust. If there are insufficient beneficiaries to fund present interest gifts to the trust, the individual can use a portion of their $11,700,000 lifetime exclusion for gift tax purposes to fund or could also make private loans to the trust.

This concept also works well with an IRA, CD, or bond. Rather than receive the low interest rates from a CD, an individual in their 70's can increase their income with a SPIA and then purchase life insurance with a portion of the SPIA payout in order to replace the asset for their loved ones.



Split Funding with Annuities

A Split-Annuity Concept is a combination of two annuity products – a Palladium® Single Premium Immediate Annuity and a fixed, deferred annuity. It is structured to provide an immediate guaranteed income for a minimum period (generally 5 to 10 years) and to guarantee the preservation of the client's original principal at the end of that same time. The amount of the income will depend upon the amount of money paid into each product, the terms of the contracts and the current rates.

How the Split Annuity Concept Works

Hypothetical Example: For a 65-year-old male in Texas in the 35% tax bracket. This assumes a 90.40% exclusion ratio[1] for the immediate annuity. The use of alternative assumptions could produce significantly different results.

Insured Annuity Concept

If a client needs life insurance, consider finding ways to fund the policy so the client is not searching for money each year. Consider having a client purchase a Palladium® Single Premium Immediate Annuity that would produce after-tax distributions sufficient to pay the premium on the life insurance policy. A corporation that is cash-rich can use the same SPIA concept to pay for a Key Man policy or to pay for a Deferred Compensation policy. In that way the client is not searching for cash each year to fund the premium as the premiums are taken care of for life.

Social Security Benefit Statements

Each year after an individual turns age 25, social security sends out a benefits estimate 60 days prior to the individual's birthday. The statement projects how much social security can be expected to be received in retirement based upon current assumptions. For clients within 10 years of retirement, these statements can cause concern as they can see that social security may not be sufficient to fund their cash flow needs during retirement. The statement may show that the individual will require additional retirement income. A Palladium® Single Premium Immediate Annuity can provide the added monthly cash flow to supplement social security and provide sufficient cash flow to pay monthly reoccurring bills. An immediate annuity can provide an inflation factor or as inflation takes its toll, an additional immediate annuity can be purchased.

Risk-Based Annuity Selling

Many clients in retirement who are no longer receiving a salary are concerned about the risk of loss during retirement and the risk of running out of money. Family history of a long life is great, but also a concern that a Palladium® Single Premium Immediate Annuity can solve. Transfer the worry and the risk from the client to an insurance carrier who will pay the annuitant for as long as they live no matter how long they live.

Clients who have concerns about inflation affecting purchasing power can be addressed with an immediate annuity with an inflation factor (a Cost of Living Adjustment). The fear of outliving one's assets is solved with a SPIA that covers a client's fixed expenses. Concern about a spouse or relative's ability to manage money is eliminated by providing an automatic payment through a SPIA to loved ones.

Reduce Retirement "Depression"

People have a fear of outliving their income and a SPIA can help reduce this fear. During the sales process, discuss with individuals who have elderly parents the concept of lifetime income for their parents. Parents are reluctant to admit to their children that they do not have sufficient cash flow to meet obligations. An adult child can purchase a joint and survivor SPIA for their parents so that they can meet all their financial needs.

Individuals Accustomed to Salary

Most individuals have worked their whole lives and received a steady paycheck each month to meet their living expenses. Having a dependable monthly cash flow that can pay all reoccurring monthly bills can be vital in a down market. That way stocks and mutual funds do not have to be sold in a down market. A Palladium® Single Premium Immediate Annuity can provide steady income during down markets. Bills can be funded with social security income and an immediate annuity to offer retirement cash flow.

Give Clients a Raise

The Coronavirus has changed many things including lowering investment market values and interest rates. With CD rates this low, why not convert that CD into an immediate annuity to increase monthly income needed for reoccurring bills. A Palladium® Single Premium Immediate Annuity is like buying cash flow for the rest of your life.

Gifting an IRA to a Charitable Trust at Death

The Secure Act, which took effect after December 31, 2019, changed non-spousal inherited IRAs by eliminating the ability to stretch the IRA distributions over the life of the beneficiary for individuals dying after December 31, 2019. Prior to the act, inherited IRA recipients could take the benefits over their life expectancy which could be 30 years or more. Now those same children and grandchildren will need to empty the inherited IRA 10 years after the death of the account owner. Nothing has to be distributed until the end of the tenth year but it all must be taxed ten years after the death of the account holder with few exceptions.

A Charitable Remainder Trust (CRT) is a vehicle that can replicate a stretch IRA. The account holder names the charitable trust as beneficiary of the retirement account(s). When the account holder dies, the assets in the retirement accounts pass to the charitable remainder trust unreduced by income taxes. This is because a CRT is a tax-exempt trust that makes payments to a beneficiary for the life of the beneficiary or a term of years not to exceed 20. Upon the death of the beneficiary the charity receives the remaining assets in the trust. The grantor decides which charity or charities should be named as beneficiaries of the remainder interest. The estate receives a partial deduction based upon the present value of the remainder interest passing to charity at the account holders death.

Children can receive an income interest from the CRT for the remainder of their lives thereby stretching out the payments just like a Stretch IRA could do. IRA owners with grandchildren who are at least 27 years old could also leave a retirement plan to grandchildren. This strategy can protect the assets from the beneficiaries squandering everything in the first year, resulting in an annual income for the remainder of their lives.

Since the entire amount left to the charitable remainder trust is invested unreduced by income or estate taxes, the principal that would have gone to taxes can have the income it generates dedicated to a wealth replacement trust for grandchildren.

Wealthy Individuals Roll-Over Pension Balances

Individuals who have a high net worth typically have large balances in their pension plans. They view these sums as part of their net worth and do not wish to give up all of that principal for a lifetime joint income. So rather than taking a lifetime income, high net worth individuals' rollover their pension plan balances to IRAs so they will continue to have the same net worth they retired with. However, they still need cash flow to live on. In addition, the HNW investment advisor will contend they can grow the money and shave off dividends, interest and principal as needed for retirement income. These individuals typically have higher fixed costs than their social security will cover. Single premium immediate annuities can fill the income gap for wealthy retirees who still require monthly cash flow.

Indexed Annuities for High Net Worth (HNW)

High net worth individuals typically have someone managing their money for them. They rely on that individual for investment advice and to guide them through turbulent times. Those individual money managers believe in what they do and feel even with downturns, the markets will always come back. The problem comes in when someone is near or in retirement or who is a very conservative investor.

Many clients lost substantial sums of money in their stocks and mutual funds after 2008 and in 2020. Many would likely accept substantially less upside potential if they could eliminate downside loss. How many clients would be willing to cap returns at 6% if the worst-case scenario was a return of zero? (Dow lost 53% in 18 months over 2008 to 2009: 14,000+ to 6,600; Dow went down by a third during the coronavirus period).

When a client buys an Indexed annuity, they are not buying an ownership interest in any stock or index. Interest earnings are credited at a rate that is related to the performance of an Index. Ordinary income taxes may be assessed on any withdrawal. A federal tax penalty of 10% may be assessed on any withdrawals made prior to age 59½. Information provided is not intended to be legal or tax advice. Clients should consult a tax advisor for their specific circumstances.

Using Losses to Create Tax-Free Income

With the stock market decline as a result of the Coronavirus scare, many clients are in a loss position similar to 2008. Just like in 2008, many clients who own variable annuities or variable life policies are getting out of the market and putting their money in money market accounts thereby locking in their losses. Many of these policies have not performed well and are worth less than the premiums contributed. Clients with policies that are in a loss position may want to start over with a less risky life insurance or annuity policy that is not subject to such market downturns such as an indexed product. For some, their objectives have changed, and they may no longer need that life insurance policy. If the premium payments into a policy are greater than the cash value, the difference is the amount of the loss.

Indexed products eliminate losses from the market in exchange for limits on the amount of growth credited to the policy. So, in years where the market tanks, there is no financial loss from the market. In years the market goes up, the various accounts will grow with caps to limit the amount of gain in exchange for limiting losses. This is an excellent product for someone approaching retirement.

The client can do a 1035 exchange from a variable life insurance policy to a fixed or indexed annuity or from a variable annuity to another fixed or indexed annuity and use the loss to offset the income from the tax-deferred annuity or Palladium® Single Premium Immediate Annuity This allows the client to use their losses to reduce some of the future tax on their growing principal in the indexed annuity while obtaining a lower-risk product.

Harvesting Losses – Example

A client has paid $52,000 in premiums on Variable Life Insurance policy. Current cash value is $26,000. That equates to $26,000 loss ($52,000 - $26,000 = $26,000) The client can use a 1035 exchange to transfer the remaining cash value into a SPIA or Deferred Annuity. The first $26,000 of growth in the deferred annuity or some or all of the income in the SPIA would be tax free. If a SPIA is obtained with the $26,000 cash value it would generate $2,826.60 per year for ten years. If a lifetime payout for an individual (65 Male) is chosen, the annual payout would be $1,605.36 per year for life.[4]

162 Executive Bonus Plan Using an Annuity

Executive bonus plans provide a means for the closely held business owner to reward the outstanding key executives where the owner may be concerned that a competitor could hire them away and harm their business. With a 162 Executive Bonus Plan, the company can reward each of their key employees in different ways and different amounts based upon their contribution. If an employee is heading up sales, a bonus could be based upon gross sales. If an employee is head of keeping all the machinery working, it could be measured in down time. Each key executive can be measured differently and separately compensated.

The reason a 162 Executive Bonus works for closely held business owners is the fact that the business gets a full deduction for the bonus paid into the annuity and the executive takes the bonus into income in the current year. This bonus plan applies only to the top 15% of employees by salary. The employer could provide a second bonus which is sent to the IRS to cover the tax on the two bonuses provided.

With IRC 409(a) rules making it difficult to structure and maintain a non-deductible deferred compensation plan, using an executive bonus plan with a deferred annuity may be the answer. With a 162 Executive Bonus Plan, the company gets an immediate deduction and the employee receives immediate income (single or double bonus). If the employer funds a deferred annuity owned by the annuitant/key employee, they can provide a benefit to the employee. By using an annuity, they can vary the contribution from year to year, which is more difficult to do with a life insurance policy. By naming the employee the owner of the annuity, they receive the tax-deferred build-up from the annuity. The employer is able to provide the employee a benefit and yet deduct the bonus for funding the annuity. To help retain employees, the employer can have the employee sign a document stating if they leave during the term of the agreement the employee must repay the bonuses.

Current Income vs. Deferred Income

Clients may have mutual funds, CDs, money market accounts, stocks, and bonds as investments. If they are working or already have sufficient retirement income, the income generated from these investments is typically taxable annually. With top marginal tax rates at 37% in 2020 and 40.8% with health care taxes added and capital gains up to 20% and potentially 23.8% with health care taxes added, individuals may want to shelter money they do not currently need to live on.[5]

Individual Tax Returns Provide Sales Ideas

Using an annuity that is tax-deferred can allow the client to reduce taxes on investment income while growing assets unreduced by current taxes. The assets in the annuity will grow tax-deferred until withdrawn from the annuity. An annuity can also help reduce alternative minimum tax by replacing tax-free bonds with an annuity to reduce the tax-free interest element that adds to alternative minimum tax.

Line 2A of the IRS Form 1040 contains the amount of tax-free interest an individual receives, and that income is added in when determining whether an individual's social security will be taxable. If that income is not needed and is in a tax-deferred annuity, it will not count towards making their social security taxable until the income is withdrawn from the annuity.

Line 2B contains taxable interest. If an individual is in retirement, ask the prospect if their taxable interest has gone down over the past couple of years and if they would like to look at an asset that could provide a steady lifetime income – a SPIA. If the individual is still working, introduce a tax-deferred annuity and show them how they may receive tax-deferred growth on the account.

Line 3A and 3B reflects the number of dividends an individual receives. If the individual is still working, these dividends may be taxed annually. If a tax-deferred annuity is used, taxes will not be paid until withdrawal.

Converting taxable investment income to an annuity will reduce current taxes and allow for greater tax-deferred growth of assets.

1) The exclusion ratio is used to determine the taxable proportion of each payment and is found by dividing the contract's premium by the expected return amount. 2) Figures based on a 10-year return of principal and interest with no life contingency option and rates valid as of 04/18/2019. Rates are subject to change. 3) All interest rates are declared as annual effective rates of interest. Interest will be credited to the annuity daily on a compound basis based on a 365-day year. Any withdrawals, including interest-only withdrawals, will reduce the amount of interest credited to the contract. Withdrawals from an annuity may be subject to federal/state income tax and, if taken prior to age 59½, and an additional IRS penalty may apply.
4) Current as of 4/18/2019. This is a hypothetical example for illustrative purposes only. Changing any of the assumptions, premiums, inflation, interest, age, etc. could significantly alter the results. 5) Tax rates set forth under current federal law may be subject to change without notice.

Annuity Disclosures

Taking withdrawals prior to Age 59½ may be subject to the 10% early withdrawal penalty. Annuities are subject to ordinary income tax. IRAs and other qualified plans already provide tax-deferral like that provided by an annuity. Additional contract features and benefits such as guarantees, death benefits and the ability to receive a lifetime income should be considered when purchasing an annuity. American National does not provide tax or legal advice. This material is not intended to be tax or legal advice. SPIA: Contract Form Series NSPA; ANY-NSPA; MYG20; MYGNQ(NY); MYGPQ(NY) (Forms may vary by state). CA Form: MYG16(04).

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