



Jim and Janet, RETIRED

Individuals often purchase annuities and let them grow tax-deferred for 20 years or more with the intent that they will use the funds to supplement retirement income. Many times when they have had the annuity that long or are ready to retire, they find they have sufficient income from retirement plans such as pensions, social security, 401(k) plans, 403(b) plans, and IRAs. If they decide that they will not need the funds in the deferred annuity for retirement, they can make the decision to preserve the annuity and leave the proceeds to their loved ones when they pass away.

Maximize the Use of Your Annuity

There is a way to utilize the money built up in the deferred annuity so that instead of passing on an annuity with a built-in income tax obligation, an individual can pass more of the annuity proceeds to loved ones. This is done by using the money from the annuity to purchase a life insurance policy on the annuitant's life or the annuitant's spouse's life either in a non-taxable estate or in an irrevocable life insurance trust for taxable estates.

Leverage the Money in Your Annuity

Depending on how much deferred income has been built up in the annuity and marginal tax rates, a life insurance policy passes on as much as three times or more of the amount that would have been passed with an annuity on

ANNUITY WEALTH TRANSFER CONCEPT

an after-tax basis. Potentially maximize what you are able to provide for your family with the Annuity Wealth Transfer Concept. Premiums must be paid to ensure a life insurance policy remains in force.



Let's Look at an Example

Jim and Janet purchased a deferred annuity 20 years ago that has grown from an initial value of \$150,000 to \$700,000. That's an 8% annual return over 20 years where the growth of the annuity was not subject to income taxes. Over the years, they built their net worth to \$2,500,000 through their retirement plans and personal investments, in addition to the deferred annuity. They are now enjoying retirement but are wondering how to best continue the use of the assets they worked so hard to accumulate.

Jim and his wife Janet indicated to their advisor they would not need the deferred annuity and planned to let it continue to build value so that they could leave it to their children. Their advisor pointed out that while a deferred annuity is a great place to accumulate growth, it is not an efficient way to distribute the asset upon death because their children would pay income taxes on the deferred annuity. Wanting to avoid burdening their children with income taxes they asked their advisor if there was an alternative that could possibly enable them to leave a larger legacy to their children.

Their insurance advisor suggested they consider the Annuity Wealth Transfer Concept. He said this might be the right solution if Jim and Janet did not need the principal or income from their deferred annuity, or if they only needed a minimum amount of income from the annuity. He informed Jim and Janet that they could apply for insurance on Jim's life and, after he was approved for a policy, do a 1035 tax-free exchange of the deferred annuity for a single premium immediate annuity (SPIA). They could use the after-tax payments from the SPIA to pay the premiums for the life insurance policy, as long as Jim had not been highly rated.

Jim and Janet liked that the life insurance proceeds would pass income tax-free to their children as the beneficiaries of the policy.

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