



# The IRA-RMD Dilemma



**Lindsay Reynolds** has \$1,000,000 in her IRA. With age 70 1/2 approaching, her accountant told her that she must begin taking a required minimum distribution (RMD) from her IRA in the following year.

Lindsay does not need the money, and she would like to save the full value of the IRA for her children, but she knows that they will have to pay income tax on what they receive. She asks her agent if there is anything that can be done to help.

- **Situation: Lindsay could follow a traditional approach to the RMDs, or she could incorporate life insurance to help her meet her objectives.**

### Traditional Approach

- If she dies today \$1,000,000 100% is taxable
- Lump sum IRA distribution to children upon her death

- They pay full income tax

1,000,000

-\$400,000 taxes

**\$600,000**

Net after taxes to Lindsay's kids after her death

### Using Life Insurance

- Purchase a \$1,000,000 Advantage Builder Series III with a No-Lapse Guarantee policy to replace the IRA money.
- The death benefit of the life insurance is income tax free to Lindsay's beneficiaries.
- An annual premium of \$35,000 to age 90 will guarantee the \$1 million death benefit to age 121.
- Withdraw \$50,000 each year for 20 years from the IRA to pay the \$35,000 life insurance premium. The difference is used to cover the income taxes on the withdrawal.
- If there is still money left in the IRA, Lindsay can give it to her children or leave it to a charity.
- Her children get a guaranteed death benefit of \$1,000,000 free of federal income taxes.

- **Solution: Advantage Builder Series III with the Wellness for Life® Rider v2**

Female, age 70, Standard, non-tobacco

**\$35,000 annual premium for 20 years, \$1,000,000 initial face amount**

End of Year	Age	Annual Outlay	Guaranteed Cash Surrender Value	Guaranteed Death Benefit
1	71	\$35,000	0	1,000,000
5	75	\$35,000	0	1,000,000
10	80	\$35,000	0	1,000,000
15	85	\$35,000	0	1,000,000
20	90	\$35,000	0	1,000,000
25	95	\$0	0	1,000,000
30	100	\$0	0	1,000,000

After-tax distribution is placed into the policy.

- **Conclusion:** Using life insurance with a No-Lapse Guarantee in situations involving Required Minimum Distributions can greatly enhance values for the client and the beneficiaries. This can be done by repositioning of assets to be more efficient.