

LEGISLATIVE UPDATE

Help your clients avoid a taxation “double whammy”

As reported by the Wall Street Journal, The Investment Company Institute notes that Americans held \$33.7 trillion in retirement assets as of June 30, 2022, with most of the funds in IRAs¹. Only twenty-three percent (23%) with a traditional IRA withdrew funds from their accounts in 2021. This tells us many of your clients could be facing a taxation “double whammy” over the next two years.

Fortunately, Securian Financial has a solution

Securian Financial's **Tax Efficient Legacy** strategy can help you show clients how to spend down their retirement assets they don't need – and use life insurance death benefit to transfer wealth to the next generation.

The major issue your clients face is where a provision in **Setting Every Community Up for Retirement Enhancement (SECURE)** Act of 2019 meets the sunset of **Tax Cuts and Jobs Act of 2017 (TCJA 2017)** provisions – shorter withdrawal periods for inherited IRAs at a time when tax rates are expected to rise.

Current tax rates, as set by the TCJA 2017, are due to sunset by January 1, 2026 and revert back to 2017 levels. Additionally, the SECURE Act essentially eliminated the “stretch-IRA” for most people. Before SECURE Act, beneficiaries of inherited IRAs could stretch out their withdrawals – and associated taxes – over their lifetime. Post-legislation, most beneficiaries of inherited IRAs must spend down those assets within 10 years. This means bigger annual withdrawals and the taxes that go along with them when the beneficiaries may be in their highest income tax bracket. For many clients, it may be sensible to start spending down their IRAs in advance of tax rates increasing in 2026.

How does it work?

Instead of reinvesting the money, they can use the funds to pay premiums for a life insurance policy to meet their death benefit needs. They can start doing this after age 59 ½ to avoid the 10 percent penalty on distributions. Upon the death of the insured, the life insurance will provide an income-tax-free death benefit to the client's beneficiaries, creating a tax-efficient legacy. In addition, parents can provide protections on the legacy by placing the life insurance in a trust with distribution instructions.

Consider this

Thirty-six percent (36%) of retirees who withdrew funds from a traditional IRA in 2021 used the money to reinvest or save, according to Investment Company Institute¹.

Target clients for this strategy are those over age 59 ½ with a life insurance need who don't need all their retirement distributions. They should have the ability or desire to spend down their entire retirement asset to fund the life insurance policy.

If you're thinking about a client or clients who might fit this picture, contact your Securian Financial sales consultant, who can show you how to present this strategy to them. We've created a [list of the sunset provisions of the TCJA](#) and we have a consumer brochure you can use to help explain the [Tax Efficient Legacy](#) to your clients. You'll find more information and other supporting marketing materials available at the LIFT landing page, www.securian.com/lift.

1. <https://www.wsj.com/articles/retirement-required-minimum-distributions-tips-11668797319> *What to Know About RMDs and Retirement Planning*, Nov. 27, 2022.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (which we refer to as mortality charges), and Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, Index Segment Charge, and Surrender Charge (which we refer to as expense charges). These charges may increase over time, and the policies may contain restrictions, such as surrender periods.

Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first 15 years of the contract. Clients should consult their tax advisor when considering taking a policy loan or withdrawal.

Other than contribution limits or tax treatment, several other factors should be considered before purchasing any of these products. These include investment objectives, costs and expenses, liquidity, safety, fluctuation of principal or return, credit rates, rider availability, surrender periods and other product/investment characteristics.

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