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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 1.0***, what happens next,
and what options do you have as the IRA beneficiary?

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

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

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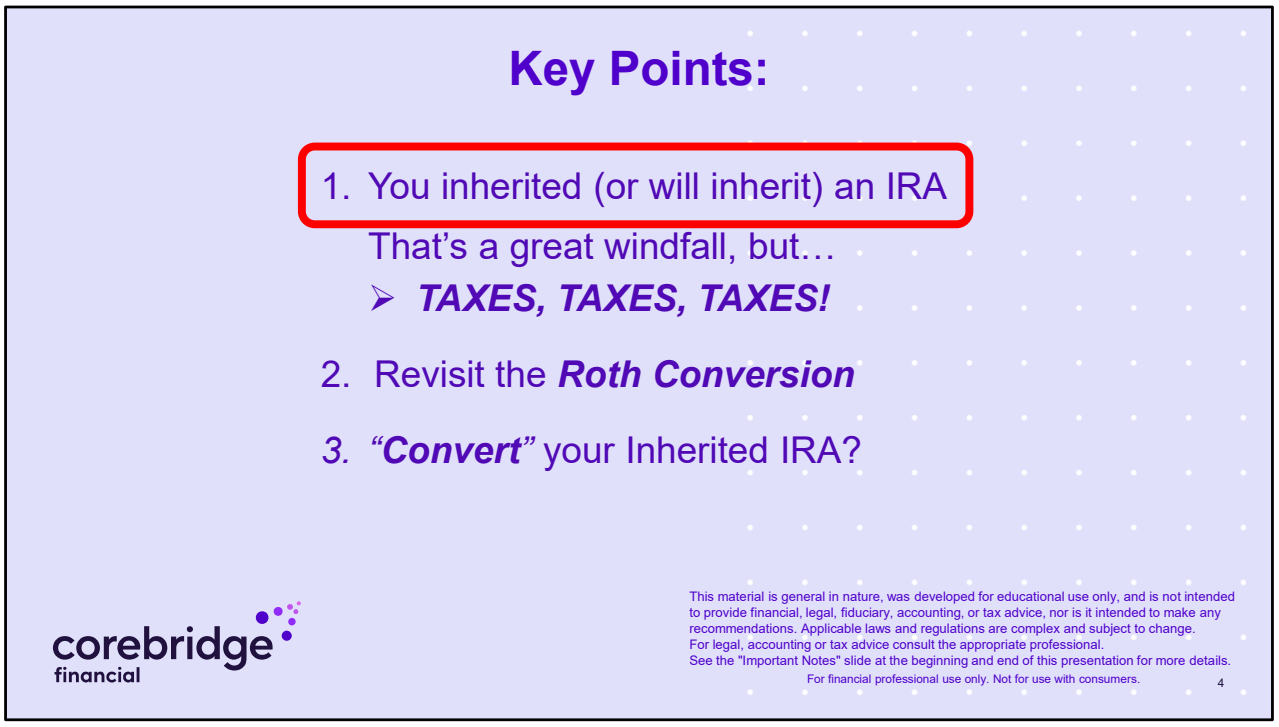
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Before we get into the main content of today's conversation, here are some important notes related to what we'll discuss.

Please read these notes carefully to understand important aspects of this information.



So let me describe what we'll discuss today:

1. First we'll talk about the concept that either you inherited, or you expect to inherit relatively soon, an IRA. That's good news and bad news. The good news is that you inherited a significant legacy. 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. Since IRA beneficiaries cannot do Roth Conversions, we'll take a look at another opportunity they may have.

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

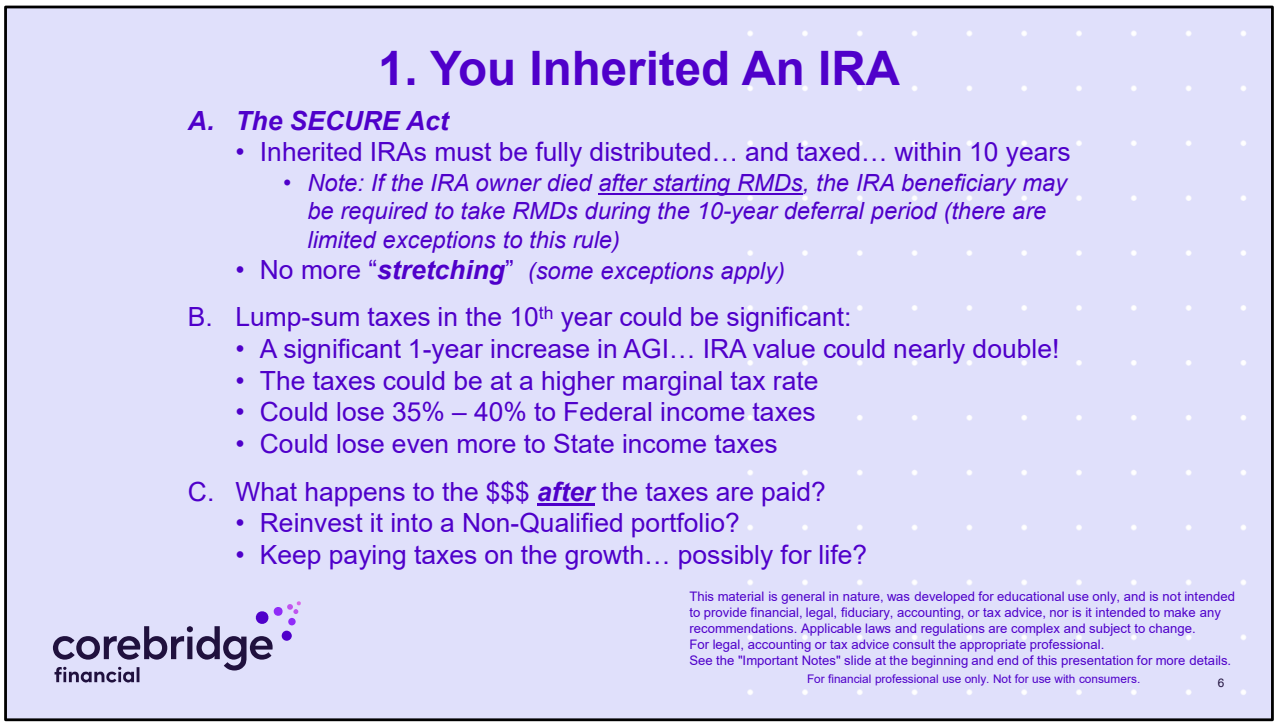
1. You Inherited An IRA

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First let's talk about "the good news and the bad news" about your IRA inheritance.

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



So, what's the bad news?

Under ***The SECURE Act***, the entire value of your inherited IRA must be distributed… and all of the untaxed distributions must be taxed… within 10 years of inheriting the IRA.
So there's no more "lifetime stretching." *(although some exceptions apply that could still enable lifetime stretching)*
Note that if the IRA owner died after starting RMDs, the IRA beneficiary may be required to take RMDs during the 10-year deferral period.

You might ask "***What's IRA Lifetime 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.

So what might beneficiaries do with their inherited IRAs?

Many beneficiaries might just leave it alone and let it grow, deferring the taxation as long as possible.
There may be some small required distributions during that 10-year period, however most of the money will remain in the Inherited IRA.

But that means THE ENTIRE REMAINING BALANCE must be distributed in the 10th year.

Imagine a $1,000,000 Inherited IRA. If it grew by just 6% per year, ten years later it would be worth nearly $1.8 million.
Imagine reporting $1.8 million of taxable income 10 years from now. What tax bracket would applied? Much of it will be taxed at the highest possible tax rate.
The result could be a very hefty tax bill, and for some potentially unexpected reasons.
Adding that much taxable income in one year could easily push result in a higher marginal tax bracket.
Consequently, upward of 35% to 40% of the inherited IRA could be lost to Federal income taxes alone, and there could be state income taxes on top of that!

And then what happens?
After paying 40% tax on a $1.8 million Inherited IRA, there would be just over $1 million left.
What could be done with that $1 million?
Reinvest it in a non-qualified portfolio?
With that approach, it's likely that there will be taxes on the growth every year, potentially for the rest of the investor's life!

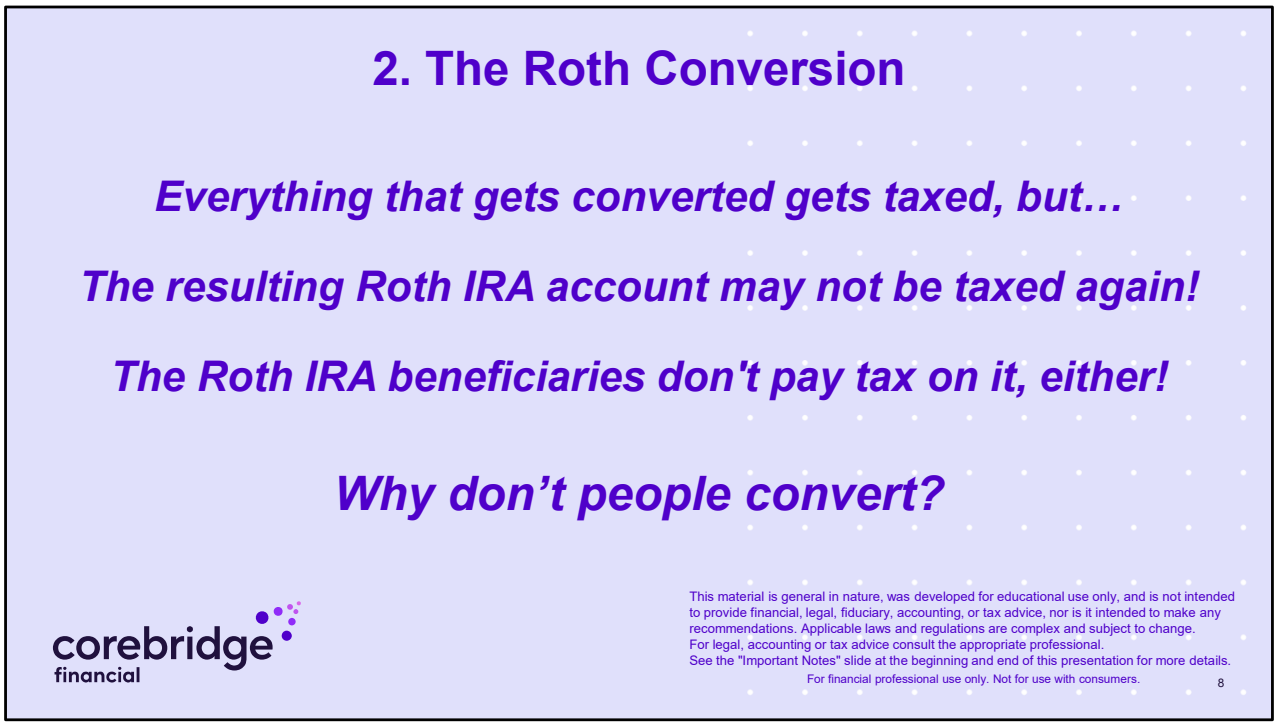
So, the good news is that this Inherited IRA is a nice financial legacy.
But the bad news is the taxes, which are significant enough that they can be a very difficult pill to swallow.
Writing that income-tax check may be the largest check the beneficiary has ever written… and perhaps the largest check they will ever write!

2. The Roth Conversion

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Next let’s revisit Roth Conversions.



The challenge of a Roth Conversion is that taxes must be paid on the untaxed amounts that are converted.
For many Traditional IRAs, none of the amount being converted has been taxed, and therefore the entire amount converted is taxable as ordinary income.

But once it has all been taxed and converted, the remaining money in the Roth IRA account may not be taxed to the Roth-IRA owner again.
That's because all growth inside of a Roth IRA occurs income tax deferred; all distributions are income-tax-free to the Roth IRA owner while they're alive; and…
all residual values left to the beneficiaries at the IRA owner's death are normally received by their beneficiaries income-tax-free.

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 people generally don't want to pay the tax created by the conversion.***

3. Convert Your Inherited IRA?

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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.

But what about IRA Beneficiaries?

As we've discussed, the beneficiaries need to pay tax on the entire Inherited IRA within 10 years of inheriting.
Since they have to pay taxes anyway, why wouldn't the beneficiaries do a Roth Conversion when they pay the taxes?
Because IRA beneficiaries are not allowed to do Roth Conversions.

3. Convert Your Inherited IRA?

IRA owners can convert to a Roth IRA, but…

IRA beneficiaries CANNOT convert to a Roth IRA

Is there another way?

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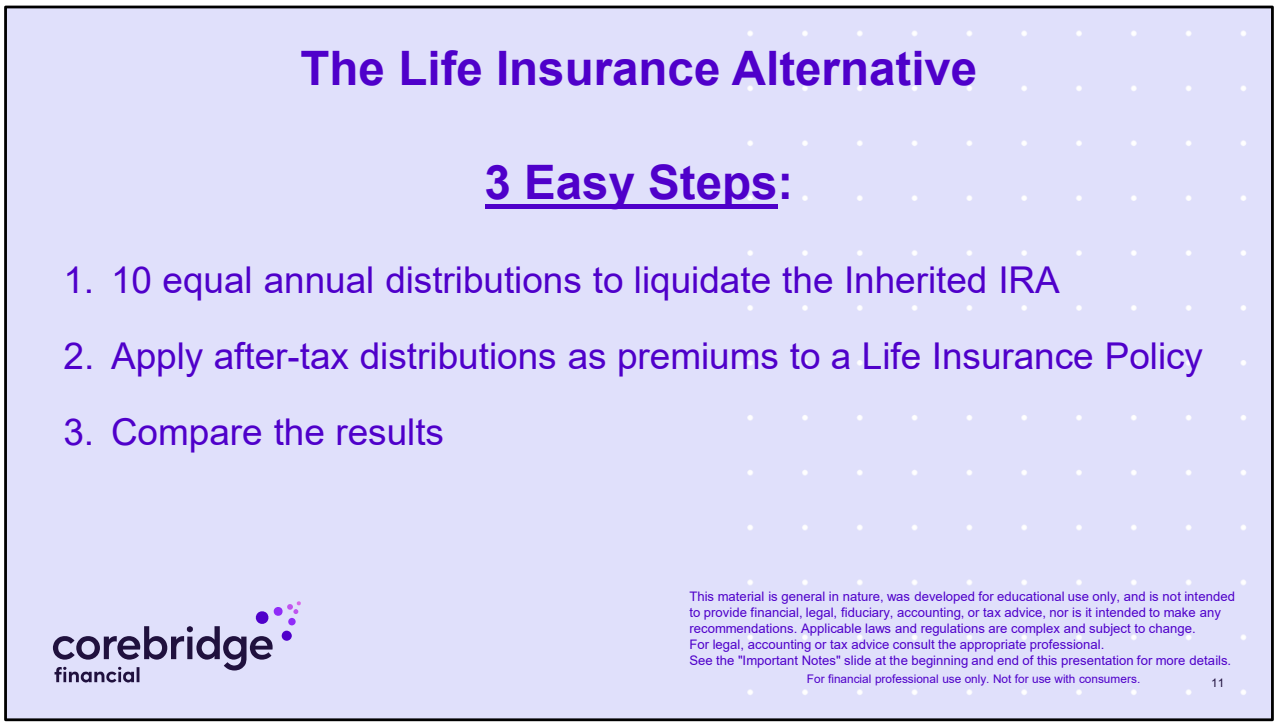
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So, whereas IRA owners ***can*** do Roth Conversions, IRA beneficiaries **cannot**.

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.

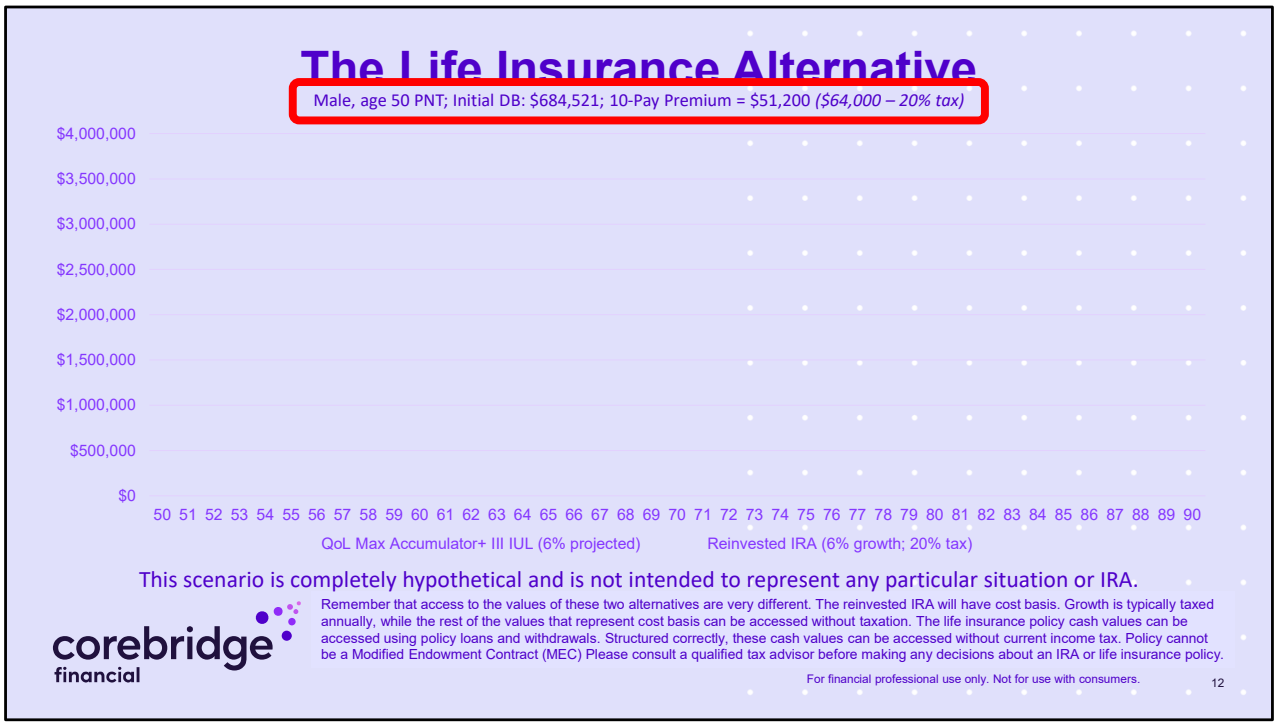


What if, instead of paying tax on the distributions and doing a Roth Conversion *(which the IRA beneficiaries can't do)*:

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



In a moment I'll show you a simple graph showing the comparison of account values using AIG's Max Accumulator+ III IUL policy projected at an assumed interest rate of 6%.

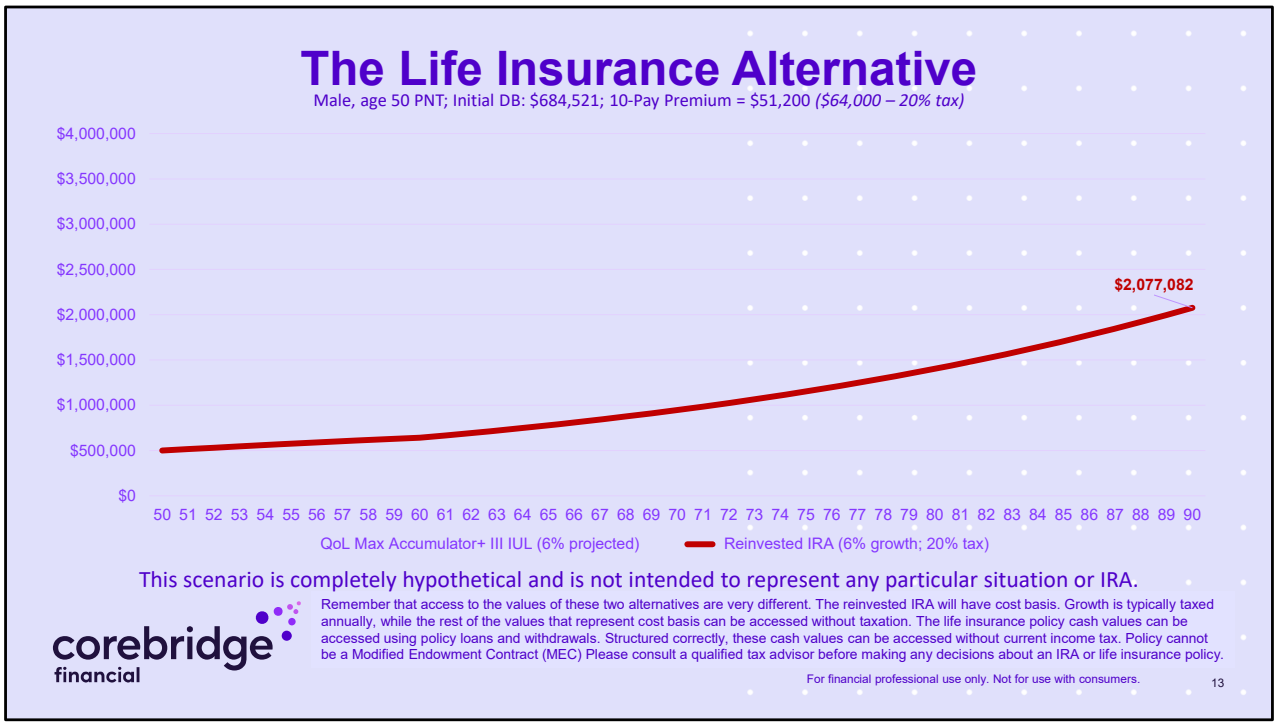
But first let's review some of our assumptions shown in the graph title

I assumed a 50-year-old male, preferred-non-tobacco inheriting a $500,000 IRA from his parents.

Let's assume the Inherited IRA grows by 6% per year, and distributions are taken at the beginning of each year for 10 years.
The annual distributions necessary to liquidate the IRA in 10 years would be approximately $64,000 per year.
After paying taxes on the distribution at an assumed tax rate of 20%, the after-tax distribution would be about $51,200 per year.

This annual after-tax inherited IRA distribution of $51,200 could then be used for life insurance premiums for 10 years, and after 10 years the inherited IRA would be empty.

When I solved for the minimum death benefit using Max Accumulator+ III IUL using the **increasing death benefit option**, the initial death benefit was $705,911 *(as of 10/27/21)*.



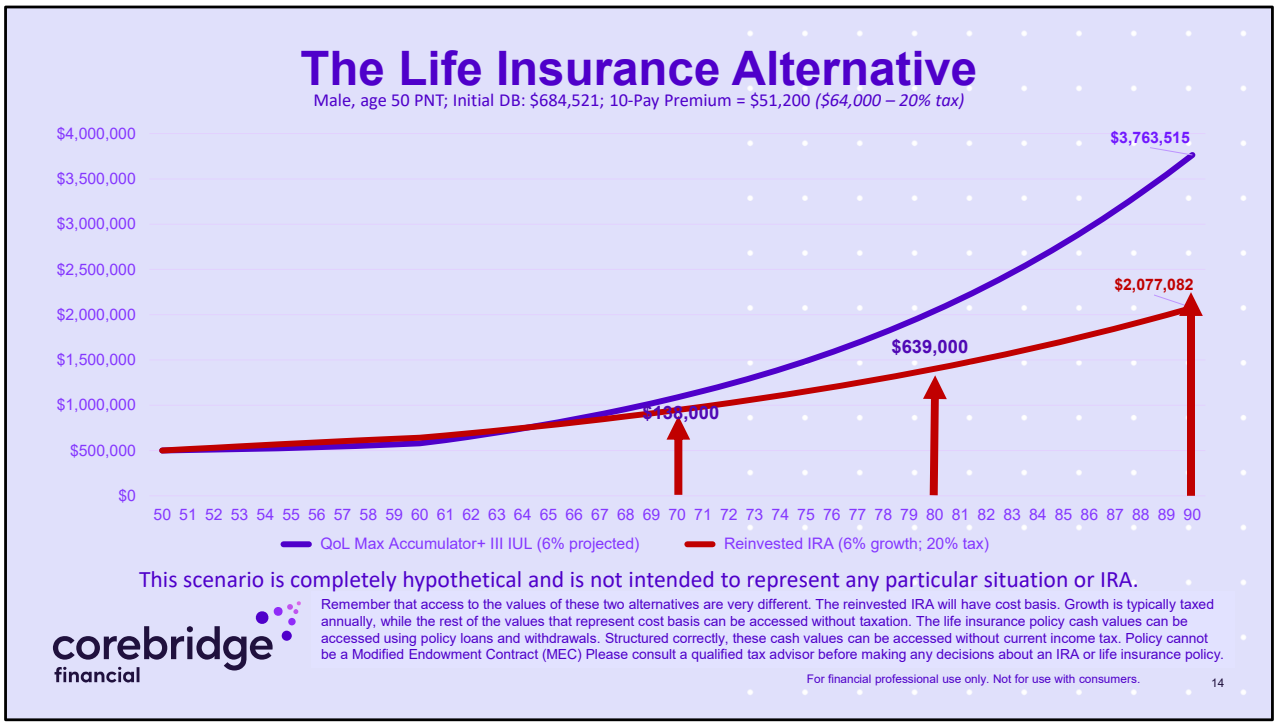
In the red line of the graph you can see the projected value of the alternative hypothetical account.
During the 10 years of liquidation the IRA was assumed to grow at a constant 6% rate with no taxes on the growth that remained inside of the IRA.

And, during the first 10 years the values shown combine the pre-tax residual value of the Inherited IRA with the after-tax value of the hypothetical alternative non-qualified investment.

The after-tax annual distributions of $51,200 are assumed to be reinvested into a taxable account, which was also projected at a 6% growth rate with a 20% tax rate.

Based on these hypothetical assumptions, this alternative non-qualified investment is projected to be worth about $947,000 at age 70; $1.4 million at age 80; and just over $2 million at age 90.

Let's compare this alternative non-qualified investment to what the same $51,200 annual premium into Max Accumulator+ III is projected to do at the same 6% projected interest rate.



In the purple line you can see the projected hypothetical Account Value of the Max Accumulator+ III IUL policy *(as of 5/1/23)*.
As with the hypothetical non-qualified alternative investment, the values in the first 10 years combine the residual pre-tax value of the Inherited IRA with the after-tax values of the Max Accumulator+ III Index Universal Life policy.

The Max Accumulator+ III IUL is projected at a 6% hypothetical level interest rate.

In these values the difference becomes more and more apparent over time… the Max Accumulator+ III IUL over the hypothetical non-qualified alternative investment.

At age 70… you can begin to see the values diverge.

- By age 70 the projected IUL account value is $138,000 higher than the projected hypothetical non-qualified account value.
- At age 80 the difference is $639,000.
- At age 90 the Reinvested IRA account is projected to be at about $2 million, while the projected Max Accumulator+ III policy is projected to have about $3.7 million…. A difference of over $1.6 million.

- Assuming the policy is not a MEC, you can access a portion of the account value by using federal income-tax-free policy loans and withdrawals *(up to basis)*, and leave the residual value as an income-tax-free legacy.

- If it turns out that you don't actually need to access the money in the IUL policy during retirement, it can become a significant income-tax-free family legacy.

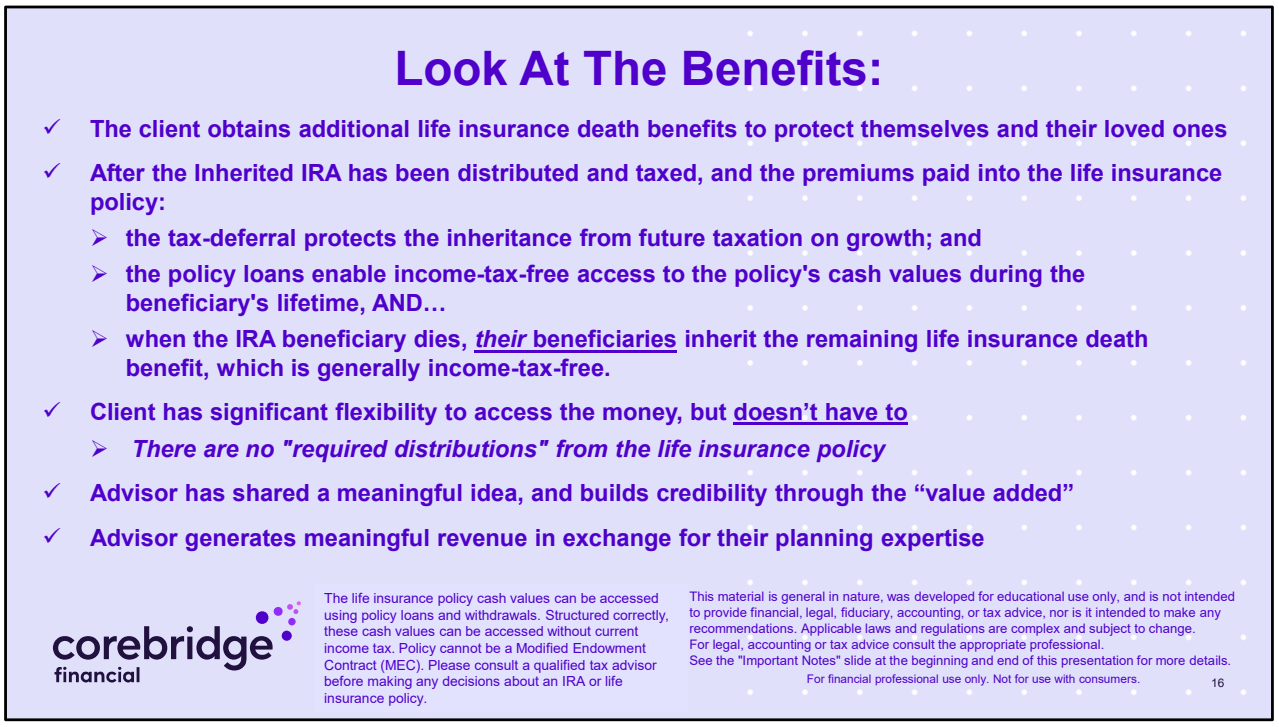
This example showcases the potential advantages of liquidating the Inherited IRA over 10 years and, instead of reinvesting the after-tax distributions into a non-qualified portfolio, it might make sense to use the after-tax distributions as premiums into a life insurance policy.

Advantages Of Life Insurance

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Let’s briefly review the advantages of using Life Insurance that even transcend the difference in projected values.



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 in the event of the insured's unexpected death.

✓ After the money from the Inherited IRA has been transitioned into the life insurance policy, the client has the potential to protect the money from future taxation during distribution to themselves **AND** to their beneficiaries.

- ➢ Life insurance policy tax-deferred cash value growth protects the inheritance from annual taxation on the growth; and…
- ➢ The policy loans enable income-tax-free access to the policy's cash values during the IRA beneficiary's lifetime; and…
- ➢ When the IRA beneficiary dies, ***their* beneficiaries** inherit the remaining life insurance death benefit, which is generally income-tax-free.

- ✓ The client has significant flexibility to access the money, but doesn't have to… there are no "required distributions" from the life insurance policy.

- ✓ The advisor has shared a meaningful idea with 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.

Where Do We Go From Here?

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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 you (or do you expect to) inherit an IRA from them?"***

Start the discussions even before the parents pass away to be prepared for the opportunity.

Second, identify current clients and prospects 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.
If so, it may create an opportunity for the advisor to get introduced to the client's children and grandchildren… and who knows… those children and grandchildren may ultimately become clients!

Questions?

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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.

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Here are some important notes about today's discussion.

It's important to take time to familiarize yourself with this information.



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 achieve their goals.

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

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



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