Stretch IRA Substitute

Prior to the Setting Every Community Up for Retirement Enhancement Act of 2019 ("SECURE Act" or the "Act") which was signed into law on December 20, 2019, upon the death of an IRA owner or retirement plan participant, the balance of the retirement account was required to be distributed in at least annual installments over the life expectancy of the designated beneficiary, assuming the beneficiary was not the spouse.

These distributions are known as required minimum distributions (RMDs), and the concept of "stretching" distributions over a beneficiary's life expectancy was known as the "Stretch IRA" strategy. Wealthier individuals and their beneficiaries who did not need the account assets for their own financial needs relied upon this strategy to further accumulate wealth through continued tax-deferred growth of the assets and to pass this wealth to their heirs and family members.

> **"...the beneficiary's inheritance and their ability to pass on additional wealth to their heirs is significantly reduced under the new rules."**

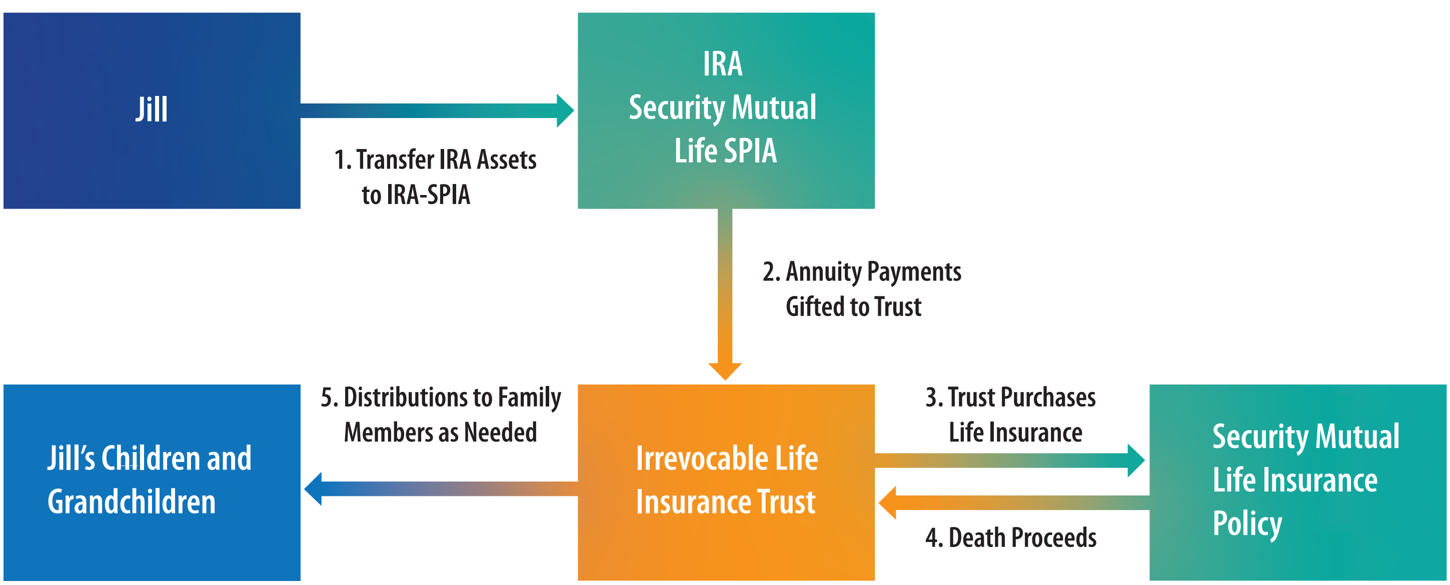
The Act completely changed the RMD rules for beneficiaries other than the account owner's spouse and a few other exceptions. For account owners dying after December 31, 2019, most non-spouse beneficiaries are required to distribute the entire account balance within ten (10) years of the account owner's death. Therefore, unlike the Stretch IRA that previously allowed tax-deferred accumulation over the beneficiary's life expectancy, which could be many years and decades later, the beneficiary's inheritance and their ability to pass on additional wealth to their heirs is significantly reduced under the new rules.

If you once planned to rely upon the Stretch IRA to pass on your retirement accounts but are now unable to do so, there may be a way to replace that lost wealth and accomplish similar goals to a Stretch IRA.

Here's an Example:

- Jill is a 72-year-old widow with a $500,000 IRA. Jill has no need for the funds in the IRA for income or living expenses. She has a son and daughter and five grandchildren. Jill's children are financially successful and will not depend upon inheriting the IRA for their own needs. Her goal is to leave the $500,000 to them in the most tax-efficient manner available at her death.
- Jill discusses this with her Security Mutual Life insurance advisor, who recommends that she apply for life insurance and, if approved, use her IRA account balance to fund the premiums through a single premium immediate annuity ("SPIA"). The advisor also recommends having the life insurance owned by a trust to protect the insurance proceeds from potential estate taxes, and from potential creditors of her children and grandchildren.
- Jill applies for a Security Mutual Security Designer WL4U2^{SM} LP121 life insurance policy and is approved. With the help of her attorney, she also establishes an irrevocable life insurance trust, which will own the life insurance and be the beneficiary. In a correctly established irrevocable life insurance trust, the life insurance proceeds will not be subject to income or estate taxes.
- Jill completes a direct transfer of her $500,000 IRA to a Security Mutual SPIA held in an IRA.
- Jill chooses a Life-Only Payout option for the SPIA so there will be no remainder at her death. The annual annuity payments from the SPIA will be used to fund the life insurance in the trust.

Note: Annuity payments from the SPIA will be subject to taxation. It is assumed that the tax payment will come from an outside source.



The Result

The IRA is used to purchase an SPIA that pays out an income stream on a monthly basis. In our example, that income should be approximately $36,875 per year. That income is gifted into the life insurance trust, which purchases a life insurance policy. The amount of the death benefit will depend upon underwriting conditions, so this strategy may not be for everyone. But in our example, Jill is approved for a preferred rating class, yielding an initial death benefit of approximately $564,000. Upon her death, her children and grandchildren will inherit $564,000 income tax-free inside of the trust for their benefit, potentially increasing the inheritance instead of the $500,000 IRA, which is subject to equity market gains and losses and income taxes. The trust can accumulate and grow the insurance proceeds and distribute the assets as needed, but there is no requirement to distribute a certain amount within a certain time period as with an IRA.

Conclusion

By leveraging her $500,000 IRA, Jill leaves a guaranteed inheritance that will exceed $500,000 to her children and grandchildren. The death benefit is received income and estate tax-free at Jill's death. If Jill did nothing, her heirs would be left with a $500,000 IRA subject to the equity markets leaving more or less, that would need to be distributed within 10 years and will be subject to income and estate taxes. The assets would also be exposed to the potential creditors of her children and grandchildren.

When structured properly, an SPIA and a life insurance policy can provide clients with leverage following the elimination of the Stretch IRA strategy. Of course, since the ability to purchase life insurance is dependent upon the ability to qualify and other underwriting considerations, this strategy may not be suitable for everyone. Please consult with your Security Mutual Life insurance advisor to see if this strategy makes sense for you.

SECURITY MUTUAL LIFE
INSURANCE COMPANY OF NEW YORK
SECURITY MUTUAL BUILDING • 100 COURT ST.
P.O. BOX 1625 • BINGHAMTON, NY 13902-1625
607-723-3551 • www.smlny.com

The Company That Cares.®

Policy Form Nos. 2112-NY-17CSO; ICC14-2112; Series 2112. 2102-NY; ICC09-2102; Series 2102. 2102-GP-NY; ICC09-2102-GP; Series 2102-GP. 2103-NY; ICC09-2103; Series 2103. 2103-GP-NY; ICC09-2103-GP; Series 2103-GP. 2103-R-NY; ICC09-2103-R; Series 2103-R.

0015026XX 02/2020