Prepare for the future with life

Help clients build an estate plan by funding life insurance with IRA distributions

At retirement, some individuals have assets beyond their IRA account that can fully support their retirement needs. Once that individual reaches the age for required minimum distributions (RMDs), they have a decision to make as to what to do with that additional income. It can be advantageous to start the planning prior to making such decisions.

Life insurance can be an ideal tool to leverage RMDs or to take distributions before the IRS-mandated age (currently those turning 73 in 2024). Prior to the SECURE Act, IRAs made for a useful transfer asset due to the stretch provision. Now, most intergenerational inheritors must liquidate their inherited IRA within 10 years, causing condensed income tax payments for beneficiaries. The result is a lesser total amount for the beneficiary when compared to prior law.

Replicating the stretch provision with life insurance can be an attractive alternative and, if structured correctly, may include the following benefits:

- Helps plan for future RMDs
- Increases the amount transferred to heirs
- Reduces taxable amount to beneficiaries

Insurance products issued by:
The Lincoln National Life Insurance Company

Putting this strategy in action

Meet Dave and Lindsey, age 65

- Dave has $1,000,000 in his IRA and Lindsey has $500,000 in her IRA
- Are currently drawing income from a combination of Dave's IRA, dividends, municipal bonds and a pension
- Want to maximize their children's inheritance

Dave's first IRA withdrawal is $25,000 after tax, which he uses as the premium amount to fund a *Lincoln WealthPreserve*® survivorship indexed universal life insurance policy. In future years, when the RMD is above $25,000, Dave and Lindsey can spend the amount above the premium or reinvest it.

Dave and Lindsey's benefits at age 85

Funding life insurance with $25,000 annually

- IRA balance: $1,052,769[1]
- Death benefit: $1,575,794
- Total: $2,628,563

Life insurance would not count as income to the beneficiary, leaving the full amount for their benefit after the death of both Dave and Lindsey.

Reinvesting $25,000 annually (earning 5%[2] on the reinvestment)

- IRA balance: $1,052,769
- 20-year reinvestment: $867,981
- Total: $1,920,750

Depending on the type of account used for reinvestment, the $867,981 may be taxable at transfer, or taxed at time of withdrawal.

[1] IRA balance assumptions: $1 million starting value, 5% ROR, inclusive of RMDs 40% combined tax rate.
[2] Assumes that a hypothetical rate of 5% is earned.

Not intended to be investment advice. Clients should consult their own tax professionals.

For more information on estate planning strategies for clients, contact the Life Advanced Sales team at AdvancedSales@LFG.com or 800-832-5372

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Issuer:

The Lincoln National Life Insurance Company, Fort Wayne, IN

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