

# Leaving a legacy with life

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

The SECURE Act requires most inherited IRAs to be liquidated by the end of the 10th year causing condensed income tax payments for beneficiaries. Prior to this Act, inheriting an IRA was beneficial in that the required minimum distributions (RMD) schedule reset/stretched to the age of the person inheriting it. Now, individuals must plan on where to apply the inherited funds. The result is a lesser total amount for the beneficiary when compared to prior law.

Life insurance offers the ability to accumulate cash value on a tax-deferred basis while allowing withdrawals of basis and loans thereafter generally income tax-free.<sup>1</sup> Additionally, the withdrawals and loans from the life insurance policy are not subject to the 10-year rule.

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



Adds flexibility to retirement assets



Defers the use of required distributions



Reduces taxable income in retirement



<sup>1</sup> Provided the policy is not a modified endowment contract ("MEC").

Insurance products issued by:  
The Lincoln National Life Insurance Company

# Putting this strategy in action

## Meet Kimberly, age 50

- She inherited a \$1,000,000 IRA
- Is currently enjoying a comfortable standard of living
- Wants to defer additional income until she's at retirement age

Kimberly uses \$50,000 of each annual withdrawal from her inherited IRA as a *Lincoln AssetEdge*® variable universal life (VUL) life insurance premium. *Lincoln AssetEdge*® VUL offers Kimberly death benefit protection with growth potential through investment options. She can use the remaining dollars for reinvestment or other financial planning needs.

This plan allows Kimberly to defer income until it's needed and receive it during retirement. By repurposing the IRA distributions, she extends the duration by 10 years with nonreportable income while retaining a death benefit larger than the total premiums paid. This allows the benefits from the original IRA to benefit another generation.



## Summary of strategy

### Life insurance premiums:

- Annual premium \$50,000 x 10 years
- Total premium \$500,000

### Life insurance distributions:

- Annual distribution of \$50,000 for 20 years

### Death benefit:

- \$873,738 at age 85

Distributions are taken through loans and withdrawals, which reduce a policy's cash surrender value and death benefit and may cause the policy to lapse. Loans are not considered income and are tax-free. Withdrawals and surrenders are generally tax-free up to the cost basis, provided the policy is not a modified endowment contract (MEC).



For more information on estate planning solutions for clients, contact the Life Advanced Sales team at [AdvancedSales@LFG.com](mailto:AdvancedSales@LFG.com) or 800-832-5372

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The Lincoln National Life Insurance Company, Fort Wayne, IN

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