09/23

FINANCIAL APPLICATIONS FOR ANNUITIES:

PASS-IN-KIND STRATEGY

PRIMARY DEMOGRAPHIC

This strategy is utilized with irrevocable trusts. Any irrevocable trust wishing to transfer assets to remainder beneficiaries in a tax-efficient manner without triggering a taxable event on the transfer.

WHAT IS THE PASS-IN-KIND STRATEGY?

A wealth transfer strategy that allows an annuity to be transferred to a remainder beneficiary of an irrevocable trust without triggering a taxable event or changes to the contractual features of the annuity. This strategy can maximize an annuity's tax-deferral period over the lifetime of the remainder beneficiaries.

HOW IT WORKS

An irrevocable trust-owned annuity with a remainder beneficiary as annuitant can be retitled to the annuitant at the trust's dissolution or distribution of assets. The retitling of the contract ownership from the trust to the remainder beneficiary does not trigger a taxable event. After the remainder beneficiary of the trust assumes ownership, they retain full rights of ownership and can name their own beneficiaries on the annuity policy.

CONSIDERATIONS

PROS:

- This strategy maximizes the tax-deferral period of the annuity while avoiding the compressed tax brackets of irrevocable trusts.
- Transfer from the irrevocable trust to the remainder beneficiary is not a taxable event. Income recognized after the transfer is taxed to the remainder beneficiary as the new owner of the annuity.
- Contractual features of the annuity stay intact upon transfer from the trust to the remainder beneficiary.

CONS:

- Beneficiary withdrawals or distributions prior to age **59.5** may be subject to penalty
- Assets in an irrevocable trust are no longer owned by the trust grantor
- Contractual features, such as surrender charges, may be subject to penalty

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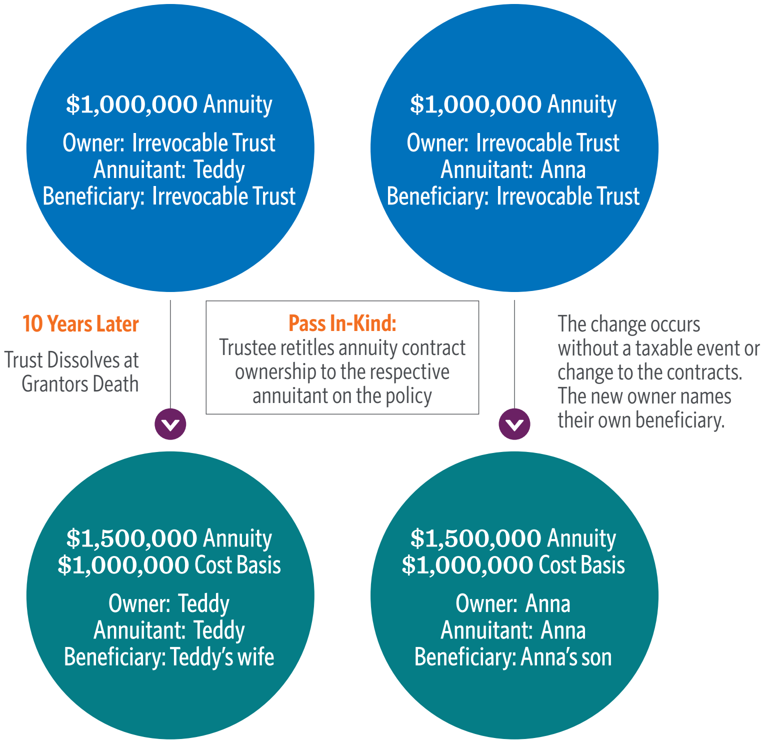

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USE CASE IN CLIENT PORTFOLIO

Frank and Ellen

Frank's revocable trust at his death becomes irrevocable and names Ellen, his spouse, as its income beneficiary. Frank and Ellen's children, Teddy and Anna, are remainder beneficiaries of the trust and receive the remaining trust assets at Ellen's death. While Ellen is alive, she retains rights to income from the trust.

Ellen does not currently require or want any income from the trust. Rather she would like to ensure Teddy and Anna are transferred trust assets in a tax-efficient manner.

To meet Ellen's desire to leave tax-efficient assets to her children, the trustee decides to purchase two annuities in the irrevocable trust using this structure:

Owner	Annuitant	Beneficiary
Irrevocable Trust	Remainder beneficiary (Annuity #1: Teddy, Annuity #2 Anna)	Irrevocable Trust

Since the irrevocable trust's beneficiaries are natural persons, the annuity retains its tax-deferred status and is allowed to grow beyond the initial contribution, depending on market valuations. When the trust dissolves and distributes assets upon Ellen's death, the trustee requests an ownership change on the annuity contract from the trust to Teddy and Anna without triggering a taxable event. Once completed, they have all rights as owners and can add or remove a spousal co-owner and change beneficiaries as situations warrant. As the new owners of the policies, Teddy and Anna are subject to any taxes and penalties associated withdrawals, including those prior to reaching age 59.5.

Before engaging in any strategy, consult a qualified tax and financial professional to ensure this strategy is appropriate.

Annuities are long-term, tax-deferred vehicles designed for retirement purposes. They offer three main benefits: tax-deferred treatment of earnings, death benefit options, and lifetime payout options.

Variable annuities are subject to investment risk, including possible loss of principal.

Withdrawals of taxable amounts are subject to ordinary income tax and may be subject to a 10% additional federal tax if withdrawn before age 59½.

All guarantees, including optional benefits, are based on the claims-paying ability of the issuing insurance company.

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