REPRINTED FROM

LIFE & Health Advisor

LIFE & Health Advisor, P.O. Box 613, Walpole, MA 02081

The Journal for the Financial Services Industry

Retirement Income Planning

Selling Insured Asset Conversion Trusts

by Paul Himmelstein, CLU, ChFC

Paul Himmelstein CLU, ChFC, is affiliated Himmelstein Ward Insurance Brokerage, Bloomfield, Conn. He can be reached at 860-761-1216 or 800-599-6965.

Have you ever had an affluent client over 60 years old who is concerned about keeping his principal the same (without risk) yet wants as high an after tax return as possible? That same client might have money in CDs, munis, money markets, preferred stock, treasuries, etc. yet as we all know yields have dropped substantially over the years.

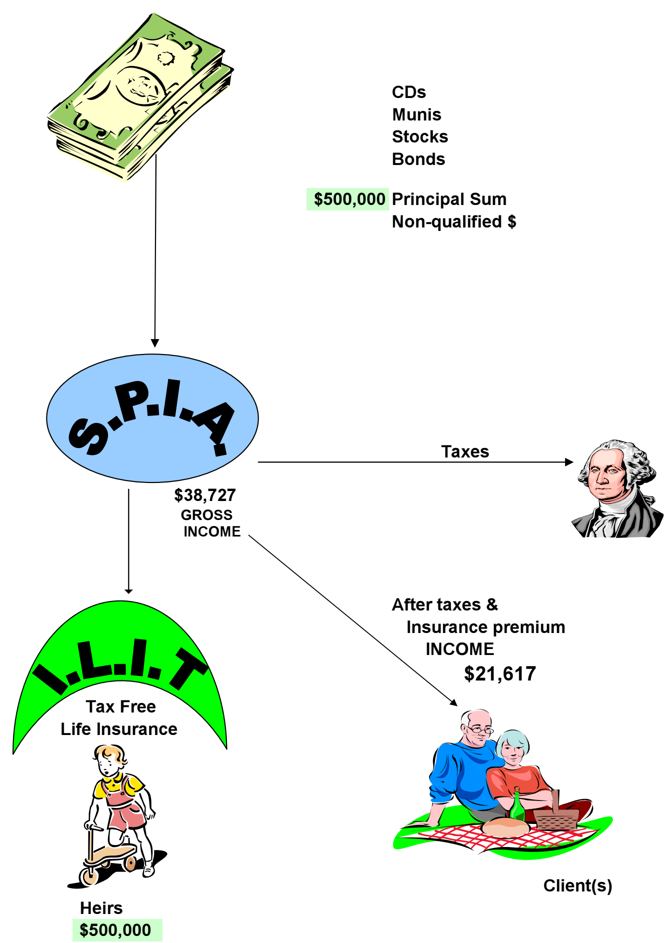
The same client or prospect is probably not concerned about estate planning yet, but if he had the choice he would much rather see his money go to his heirs. Your initial approach might sound something like this:

> *"What if I could show you a way to improve your net return after-tax with guarantees on your money and without effecting your lifestyle? Then, after using up that additional cash flow, what if the net result meant passing more to your family? Can we do business?"*

Please think about that statement. Most clients don't want to think about estate planning, but if they had a choice and it didn't affect their lifestyle, they would much rather have their money go to their heirs at death, than to the government. Yet many of these people have done very little estate planning.

But this is a concept that actually accomplishes some basic estate planning: it puts more money after tax in their pocket; guarantees the return forever (as long as they live); passes on more money to their heirs than holding other comparable assets and, at the same time, makes you money. The Insured Asset Conversion Trust accomplishes all of the above.

It works by converting some of the client's assets to tax-favored, both while living and after his death. The process is to buy a single premium immediate annuity. That annuity either dies when the client dies (or in the case of joint and survivor when both decease). The income from that annuity is



tax-favored due to the exclusion ratio where the majority of the income is considered principal and is thus untaxed. The client then buys a policy on himself (either single or survivorship).

Obviously if you are spreading the income over two lives, joint and survivor, then you have to use a survivorship policy. In this case we are using a guaranteed premium universal life from one company and a SPIA from another. The same company cannot underwrite both. The client takes the excess income generated from the annuity and, after taxes and insurance, puts more money in his pocket. However, the best effect is the proactive estate planning you have done in that the annuity dies when the client dies, thus the estate tax on that asset is zero and the net estate was reduced by the amount the client invested in the annuity. The life insurance is not owned by the client but rather in a trust or in the beneficiaries' name. For those who still want access to policy cash values we can use private financing or private split dollar concept.

When the client is impaired, we have had numerous cases where we have shopped out the immediate annuity to be impaired and we had actually shopped out the life insurance to obtain a standard rating. The arbitrage between these two ratings makes it advantageous to the client as he receives higher income and it costs him less to insure his life funded in a wealth replacement trust. This policy is then passed through to the heirs completely income and estate tax free.

As we all know, the estate tax is staged in that the more you leave that is taxable, the higher percentage of estate taxes one would pay on their gross estate. You as a producer did a wonderful job for your client and you made money at the same time.❖

Original Amount	$500,000	Non-qualified $
Yield Rate	4.50%	
Annual Income	$22,500	
Tax Rate		30.00%
Taxes		($6,750)
Net Income	$15,750	
Net Yield After Tax	3.15%	
Included In Estate		$500,000
Estate Taxes at	45%	($225,000)
Net To Heirs		$275,000

SPIA (-)		($500,000)
Annual Income	$38,727	
Taxable Portion	$14,337	
Tax Rate		30.00%
Taxes		($4,301)
Net Income	$34,426	
Life Insurance Premium (-)		($12,809)
After Taxes and Premium		
Net Income (AT&P)	$21,617	
Net Yield (AT&P)	4.32%	
Included in Estate	$0	
Estate Taxes at	45%	$0
Net Savings In Estate Taxes		$225,000
Net To Heirs		$500,000

Note: This example is for concept, only. Costs of SPIAs and life insurance vary with age, and health and availability. Taxes vary and should be viewed in relationship to total estate plans.

Assume:

(-) Life insurance, 65 year old, standard non-smoker rate guaranteed UL plan.

(-) SPIA income for life, non-qualified money.