



Issue Date: May 2008, Posted On: 5/7/2008

## **Offer Your Clients An Alternative to the "Tax Time Bomb"**

By Darrel Keuck, National Design & Marketing Group, Scottsdale, Ariz.



Think back — exactly how many “tax time bombs” have you placed in the past year, or five years? Tax time bombs are annuities you have sold to seniors that are accumulating years of tax-deferred earnings. Eventually, those earnings will be taxed as income. Yet, we know from experience that many annuity purchasers never actually receive those earnings as income — they are taxed to the beneficiaries receiving the annuity death benefits.

Over the past decade, consumers have invested more than \$1 trillion in annuities, offering plenty of challenges and opportunities for the financial advisor. The typical senior prospects look for yield, safety, and liquidity for some portion of their rainy-day savings. The fixed indexed annuity came along in the 1990s, and it was the ideal vehicle to handle these objectives. For the advisor, it was often an easy sale that came with a handsome commission.

For the senior, the advantages of tax deferred growth, combined with the potential for higher returns and the ability, if needed, to annuitize or take a lifetime of income was very attractive. But what if your client is one of the majority of annuity owners who never take income? Are they aware of the tax consequences they may leave behind — namely, taxes to their heirs at ordinary income rates?

Many of us believe the senior market, or the expanded market with the addition of the baby boomers, is still the place to be, with products available to fit almost every situation. For this article, I'll focus on those clients who have a CD or an annuity that, barring an emergency, they do not plan to use for income in the foreseeable future. Is there a better approach for them?

At my firm, we think so. What if there was a product that allows your client to enjoy potentially higher-than-typical returns, plus tax deferred buildup of the cash value, while also creating a tax free benefit payable at death? Or better yet, a product that delivers all that, and makes the tax-free benefit available, while they are still living, to help pay expenses for emergencies, opportunities, or other monthly expenses of any kind.

There is such a product — a fixed indexed single-premium whole life plan from one of the carriers my company works with. The chart below shows the results this product can generate for a female non-smoker, age 65, who pays a single premium of \$100,000.

<b>Fixed Indexed Single Premium Whole Life Supplemental Illustration — Chronic Illness</b>										
Prepared for: Valued Client, Female, 65, Nontobacco Premium + Bonus Interest = \$110,000					Face Amount: \$204,969 Single Premium: \$100,000 Bonus Interest 10%: \$10,000					
Policy Year	End of Yr Age	Guaranteed Values			Current Values					
		Cash Surrender Value	Death Benefit	Monthly Chronic Illness Benefit*	Indexed Strategy (2)	Accumulation Value	Cash Surrender Value	Death Benefit	Monthly Chronic Illness Benefit*	
1	66	\$100,000	\$220,969	\$5,938	\$88,000	\$106,401	\$100,000	\$238,123	\$5,938	
2	67	\$100,000	\$209,849	\$5,601	\$88,000	\$102,638	\$100,000	\$245,032	\$5,601	
3	68	\$100,000	\$204,969	\$5,454	\$119,401	\$129,967	\$118,967	\$253,101	\$6,912	
4	69	\$100,000	\$204,969	\$5,454	\$119,401	\$125,485	\$115,485	\$262,172	\$6,452	
5	70	\$100,000	\$204,969	\$5,454	\$119,401	\$120,800	\$111,800	\$272,881	\$6,004	
26	91	\$164,238	\$204,969	\$5,454	\$640,090	\$640,090	\$640,909	\$950,330	\$7,576	
27	92	\$166,855	\$204,969	\$5,454	\$849,573	\$849,573	\$849,573	\$1,016,478	\$7,576	
28	93	\$169,442	\$204,969	\$5,454	\$830,906	\$830,906	\$830,906	\$1,086,420	\$7,576	
29	94	\$171,871	\$204,969	\$5,454	\$812,162	\$812,162	\$812,162	\$1,161,077	\$7,576	
30	95	\$174,019	\$204,969	\$5,454	\$1,076,143	\$1,076,143	\$1,076,143	\$1,240,797	\$7,576	

\*Monthly Chronic Illness Living Benefit  
Trigger: two of six ADLs, Physician Certified, **No Confinement Required**  
Up to 3% of death benefit monthly for **ANY** expenses

This client instantly receives a 10% cash bonus, thus having the effect of paying in \$110,000. This buys her an immediate death benefit of \$238,000. It also makes available a monthly chronic illness living benefit triggered by the client's inability to perform two or more of six activities of daily living. Confinement in a care facility is not required to trigger the benefit. This "accelerated" payout can be up to 3% of the death benefit per month, for up to 33 months.

At the client's death, the unaccelerated death benefit paid to the beneficiaries can be well above the original face amount, as you can see in the chart — almost six times as much at age 95. And it is free of income taxes. If the client uses accelerated benefits for long-term care expenses, a net death benefit can still be available. Note also that the client doesn't sacrifice current liquidity, either, because from day one, the cash surrender value never drops below \$100,000.

This product represents the new generation of life products that give clients options for future planning, without the devastating consequences of a future income tax time bomb. For clients who don't have definite plans to use assets for generating an income stream in retirement, this single premium whole life plan is a tremendous alternative for tax-preferred asset growth and future planning options. And it has a lot to offer the producer as well. Business submitted on this product can be processed in as little as 48 hours, without a paramedical exam or blood.

At my company, and at many other wholesalers like us, our goal is not to market the insurance products with the highest commissions, but to provide our agents with products they would be proud to sell to anyone. Our mission is to use the client's dollars to stretch benefits to their fullest while also providing worthwhile compensation to the producer. I personally work toward that goal by helping to design some of the annuity and life products we market. The 'state of the art' in product design now enables our industry to offer products with far more benefit options and choices, especially for the senior client. That's what makes this an exciting time to be in our business, as we defuse those 'tax time bombs' and solve other problems our clients face in planning for the future.

*Darrel Keuck is president of National Design & Marketing Group. He began wholesaling insurance products in 1983 in Nebraska. After building his company into a nationwide marketing organization, he moved it to Arizona in 1993. Since then, the firm has grown with a strong emphasis on product research and development.*