

# Tax Offset

**Tax Offset** strategy helps minimize the income tax burden your beneficiaries receive due to inheriting the IRA. It is done by leveraging a life insurance policy to offset the projected amount of income taxes they would owe when they inherit the IRA.

## How it works:

- 1 Determine the projected value of your IRA at a point in the future when you might expect to transfer the IRA to your beneficiary.
- 2 Estimate the income tax your beneficiary will owe if the IRA is inherited as a lump sum at the chosen age.
- 3 Purchase a life insurance policy in order to offset the amount of taxes your beneficiary would owe. The purchase of the life insurance policy would be done using a portion of your RMD\* from your IRA.

## Here's an example:

John has accumulated sufficient assets outside of his IRA and has decided to pass it to his son, James, as an inheritance by making him the beneficiary of the IRA. John knows by doing this James will be responsible for paying estate and income taxes on the inherited IRA. John wants to implement a plan that will help his son alleviate the income tax owed on the IRA.

ASSUMPTIONS	TAX OFFSET STRATEGY	RESULT
<b>JOHN</b> Age 70 (Survives to Age 80) <b>JAMES</b> Age 45 (Survives to Age 80)	1 \$577,208 Projected IRA Value	
<b>\$500,000</b> IRA Balance	2 \$161,619 Estimated Income Tax	<b>\$577,208</b> James' Inheritance
6% IRA Annual Return 28% Income Tax Rate	3 \$161,619 Life Insurance Policy	

## Results:

James is named as the beneficiary on both the IRA and the insurance policy. James will then use the death benefit proceeds from the insurance policy to cover the income taxes on the inherited IRA. Life insurance death benefits passed to a beneficiary are income tax free.

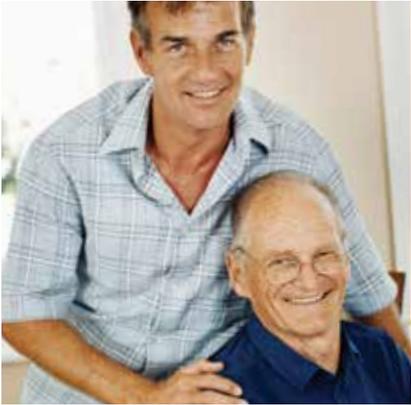
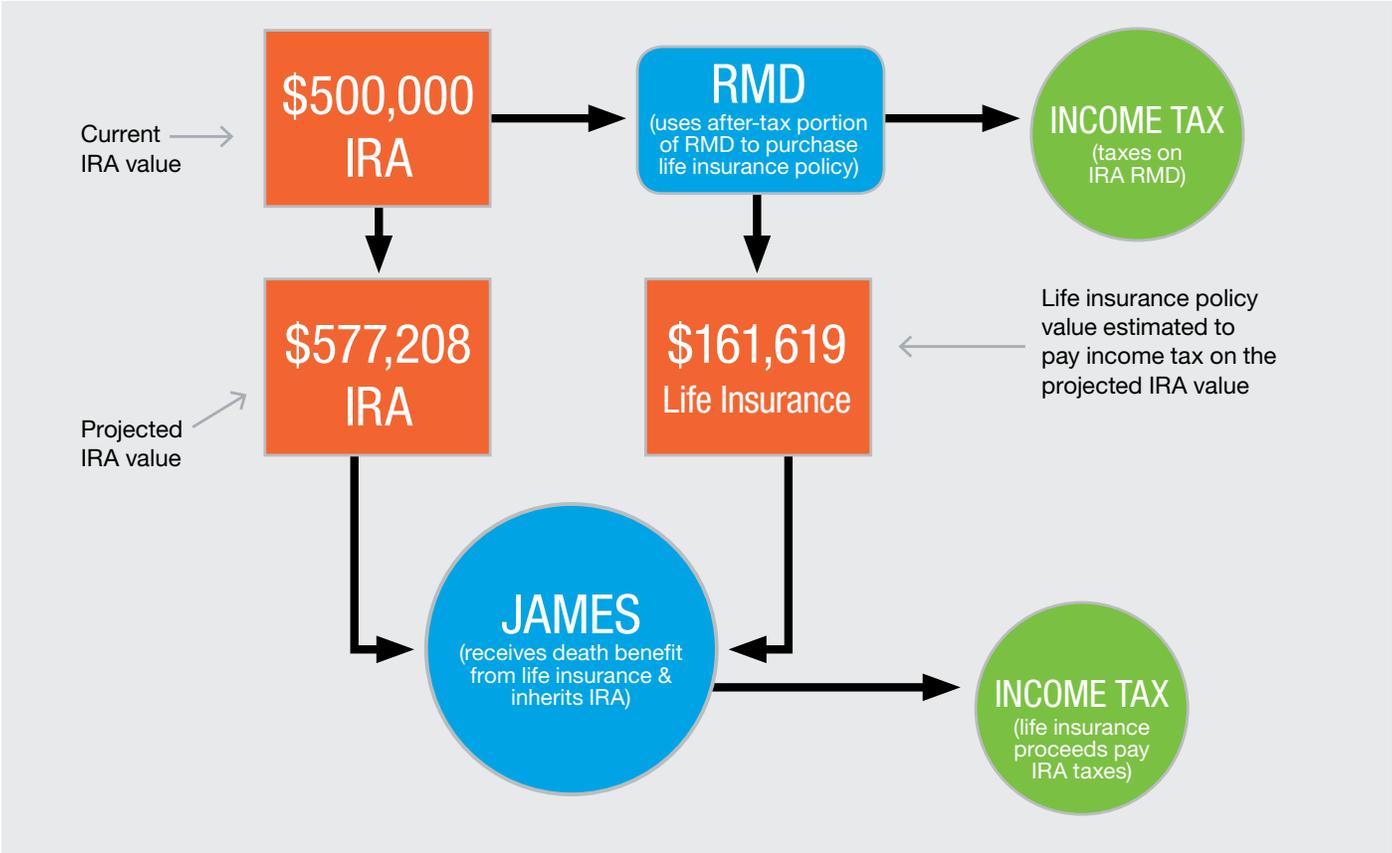
\* Taking additional withdrawals from the IRA to pay life insurance premiums may not be the best alternative. Whenever life insurance premiums exceed RMDs, an individual should consider paying those premiums from sources other than the IRA.

Case studies and benefit values represented as part of this presentation are based on hypothetical client age, gender, underwriting classification, premium and interest rate assumptions and are solely intended to introduce IRA Maximization concepts using life insurance contracts. Life insurance death benefits and cash values will always vary based on a variety of factors including age, gender, health, and other underwriting factors. Consumers should consult specific information regarding the products they are considering.



Not a Deposit	Not Insured by Any Federal Government Agency	
No Bank Guarantee	Not FDIC Insured	May Lose Value

# Tax Offset Strategy Process:



**IRA Maximization is a wealth transfer strategy that allows you to transfer the value of an IRA into a more cost-effective tax arrangement. Also, the strategy can help increase or keep the value of the IRA when transferred to your beneficiaries.**

**Who can benefit from using the IRA Maximization strategies?**

- Someone who doesn't need their IRA assets for their retirement income needs.
- Someone more interested in transferring their assets than generating income.
- Someone wanting to provide a legacy of lifetime income for their loved ones.

## For more information, contact your Financial Representative.

This material contains statements regarding the tax treatment of certain financial assets and transactions. These statements represent only our current understanding of the law in general and are not to be considered legal or tax advice by purchasers. The tax treatment of life insurance and Individual Retirement Accounts (IRAs) are subject to change. Income, estate, gift, and generation skipping tax rules are subject to change at any time. Neither Protective Life nor its representatives offer legal or tax advice. Purchasers should consult with their legal or tax advisor regarding their individual situations before making any tax-related decisions.

The income tax on an IRA is not due until each distribution is taken. If an individual made non-deductible contributions to the IRA, a portion of the IRA proceeds may be an income tax-free of basis.

While these strategies may help reduce or eliminate income taxes, they may cause an equal or greater amount of estate taxes, depending on an individual's situation.

Protective and Protective Life refer to Protective Life Insurance Company (PLICO) and its affiliates, including Protective Life & Annuity Insurance Company (PLAICO). Insurance products are issued by PLICO in all states except New York and in New York by PLAICO. Both companies are located in Birmingham, AL. Each company is solely responsible for the financial obligations accruing under the products it issues.