A "JUST-IN-CASE" STRATEGY TO LIVE ON THEN PASS ON

At Thanksgiving, many retirees find themselves grateful for family, friends, good food, and, of course, a strong, flexible income plan.

Thanksgiving is a time many people review those aspects of life for which they are grateful. As retirees age, they also may consider the legacies that will be left behind for family and charitable causes. The challenge many retirees face is knowing how much they'll need in "live-on" assets. Because, first and foremost, the priority is having enough income to maintain their lifestyles.

For clients who are unsure of how much income will be needed over the long term, adding a "just-in-case" element to the plan can provide income to cover expenses as well as a legacy that beneficiaries may receive over their life expectancies. Here are some questions to ask clients to help determine if a "just- in-case" strategy might be appropriate.

1. Does your guaranteed income currently cover all or most of your essential monthly expenses?

If the answer is no, then a plan to cover that guaranteed income gap should be considered. If the answer is yes, the client may want to consider whether adding a "just-in-case" element is appropriate. The "just-in-case" element provides the option for future guaranteed income with a potentially tax-advantaged back-up plan for beneficiaries.

2. Will you feel more confident knowing you have a "just-in-case" element in your plan?

Retirement is a big step for clients. It is common for them to want the comfort of knowing that their current—and future—guaranteed income needs can be met. This concern often changes as time passes, the income plan works, and the retirees gain confidence.

One "just-in-case" plan to consider uses a tax-deferred variable annuity to provide two benefits:

- **Future guaranteed income**. This can be achieved through an income benefit or annuitization.
- **A potentially tax-advantaged legacy**. If the client does not need the income, their annuity becomes a legacy for a child or grandchild who may stretch the required distributions over their life expectancy. If the annuity is left directly to a charity, the charity will not pay taxes on any gains.

3. How are you managing income distributions between qualified and nonqualified accounts?

Most retirees have both qualified accounts, such as traditional IRAs and 401(k)s, and nonqualified accounts. By carefully selecting which account to use for the "just-in-case" element, you can ensure the nonqualified annuity will provide future guaranteed income.

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If additional income is not needed, the nonqualified annuity becomes a tax-advantaged legacy or bequest.

- **Legacy**. Nonqualified assets can be an attractive option for the "just-in-case" element. Retirees can use partial annuitization to increase guaranteed income and/or take distributions as needed. If income is not needed, clients will enjoy the benefit of tax-deferred growth. A natural person, such as a child or sibling, who is the beneficiary of a nonqualified annuity can stretch the account, which means he or she can take life-expectancy distributions. Taxes will be due on gains but not on principal. (Remember—the Setting Every Community Up for Retirement Enhancement (SECURE) Act changed the distribution rules for the beneficiaries of IRAs, not nonqualified annuities.).
- **Bequest**. A traditional IRA or 401(k) is a "spend down" account. That is, through RMDs, the account will make distributions during the retiree's lifetime. This can make these accounts a good choice for the "just-in-case" element. Traditional IRAs and 401(k)s are mostly funded with pretax dollars. If the owners name a natural person as the beneficiary, such as a child or sibling, the beneficiary will be taxed at ordinary income. However, retirees also can name a qualifying charity directly as the beneficiary of the account. The charity will pay taxes at its tax rate—0%!

Make Thanksgiving Calls

Thanksgiving is a perfect time to reach out to clients to let them know you're thankful for them trusting you with their financial futures and that you'd be happy to look into building them a "just-in-case" income plan they may be grateful for in the future.

Additional Resources and Links

A Strategy to Consider When Clients Are Underspending in Retirement

Creating Retirement Income: Are Your Clients Confident or Concerned?

Social Security and Longevity Planning—It's a Match!

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
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Annuity withdrawals and other distributions of taxable amounts, including death benefit payouts, will be subject to ordinary income tax. For nonqualified contracts, an additional 3.8% federal tax may apply on net investment income. If withdrawals and other distributions are taken prior to age 59½, an additional 10% federal tax may apply. A withdrawal charge also may apply. Withdrawals will reduce the contract value and the value of the death benefit, and also may reduce the value of any optional benefits.

Under current law, a nonqualified annuity that is owned by an individual is generally entitled to tax deferral. IRAs and qualified plans—such as 401(k)s and 403(b)s—are already tax-deferred. Therefore, a deferred annuity should be used only to fund an IRA or qualified plan to benefit from the annuity's features other than tax deferral. These features include lifetime income, death benefit options, and the ability to transfer among investment options without sales or withdrawal charges.

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