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# SPWL: Maximize A Lifetime Of Savings

The deferred annuities market has gone through many changes since DAI began marketing the product back in 1976. Through it all, though, the consistent theme has been to offer the highest possible yield with the greatest level of safety of principal and the lowest surrender charge penalties.

We all know the greatest appeal of annuities is providing tax deferred growth. And if an individual plans on using the funds during his lifetime, then many traditional SPDAs will serve the purpose very well.

However, if your client is like more than 70 percent of annuity holders, he isn't planning on using the money! He is planning on passing it to his heirs. A 1993 study by Cornell University economists shows that \$10.4 trillion will change hands by 2040, and the "heir" that will receive the most of that hard-earned money is the IRS! Depending on an annuity holder's tax bracket, the IRS could get over 50 percent of the growth of any funds upon his death.

The facts are really quite simple: Non-qualified annuities are funded with previously taxed dollars, and it is the earnings on these annuities that will be fully taxed prior to receipt by heirs other than a spouse.

For example, if an annuity started

with a deposit of \$50,000 and is worth \$125,000 on the annuitant's death, then the heirs will receive the full value, less any tax on the previously untaxed growth. In this case, the heirs will receive a total of \$87,500 (\$50,000 deposit + \$75,000 growth - \$37,500 tax). Fifty percent of the growth—\$37,500—is lost to state and federal taxes.

**If the annuity holder had used one of the oldest insurance contracts in existence—single premium whole life (SPWL)—the results would have matched the goal.** Loved ones would receive the entire amount, tax free.

For example, if a male annuitant who is 55 makes a \$50,000 deposit into an SPWL, 15 years later he will have an estate of approximately \$108,495, which would go to his heirs tax free. The choice is between a net value to the heirs of \$108,495 (SPWL) or a net value of \$87,500 single premium deferred annuity (SPDA).

Single premium whole life insurance offers a wealth of opportunities for you and your clients. It has the features and benefits that meet the needs of seniors. Since 100 percent of the funds transferred are the initial cash value, SPWL is the ideal transfer vehicle to receive funds from any number of sources. Just compare the modern SPWL contracts



to certificates of deposit (CDs), SPDAs, and even older SPWL contracts!

### Benefits and Features of Modern SPWL Contracts

The modern SPWL contract offers better features and benefits than the older version. There's the flexibility to access cash through loans and withdrawals. Some offer an accelerated death benefit feature, where up to 90 percent of the face amount of the contract may be withdrawn income tax-free if the insured is confined to a nursing home or is terminally ill. Guarantees are offered on the principal, death benefit and interest rates. Some of the best SPWL contracts have a simplified application and quick issue process, offering convenience to you and your client. In fact, the most experienced companies in this market provide case processing in as little as 15 minutes!

If your clients are among the 70 percent who want their lifetime of savings to benefit their heirs and not the IRS, then you can help them by examining their present holdings and offering SPWL as an alternative.

**CDs.** Interest rates are at an all-time low and CDs are not tax-deferrable. If

a client uses SPWL instead of renewing a CD, he immediately increases the amount of money available to his heirs. Plus the interest rates are more attractive in the modern SPWL contract!

**Annuities.** There are literally billions of dollars held in annuities. For many clients, the tax deferral offered by these contracts was a perfect fit for them at the time of purchase. But now, they no longer need to use this money for their retirement income and are planning to pass it on to their heirs. The heirs are looking at huge tax burdens since the gain in annuities is taxed at their current income tax rates. The beneficiaries can even be pushed into a higher tax bracket because of the impact of the inheritance.

**Pre 1988 SPWL.** A large opportunity exists in the marketplace for clients holding pre-6/21/1988 single premium whole life insurance policies. These policies received tax-favored treatment on a first-in, first-out (FIFO) basis. Policyowners could withdraw money and not have to pay taxes until the principal was exhausted. The contracts of today are based on a last-in, first-out (LIFO) basis. Interest earnings must be withdrawn first, and therefore

create an immediate tax liability.

These pre-1988 contracts may hold substantial cash value in comparison to the face amount of insurance. In many cases the client can do a tax-free 1035 exchange to a new SPWL contract, where the cash value may purchase a larger death benefit. In addition, their grandfathered tax status is maintained throughout the 1035 exchange.

**Opportunities abound in the senior marketplace—one of the largest parts of our current population.** You can provide your clients with one of the best financial tools—the modern SPWL—to satisfy their needs for security, flexibility and guarantees.

### A Slightly Different Path to the Same Destination

For those annuitants concerned with the impact of immediate tax payments, there is a good option. If they are willing to forego any immediate access to the cash accumulation in a life policy, they can transfer their deferred annuity directly into an immediate annuity and use the payments from that contract to fund a life policy.

This approach will spread payments (and the tax bill) over a period of years. Rather than forcing payment of the now taxable growth of the previously deferred annuity into one year, it can be spread over as long as 15 years. Ultimately, this will produce the same end result of tax free transfers to the annuitant's heirs, not including the IRS!

**The easiest sale you can make is to give your client what he wants.** When the benefits of SPWL are explained and compared to the alternatives, the advantages are clear. As we are all maturing (along with our clients), isn't it nice to know that, sometimes, some of the oldest solutions are still among the best? o