Use an IOVA for Trust Assets to Help Secure Clients' Legacy — and Ensure Your Own

By Laurence P. Greenberg

Use an IOVA for Trust Assets to Help Secure Clients' Legacy — and Ensure Your Own

By Laurence P. Greenberg

Financial advisors face challenges from every direction — from the 'rise of robos,' to downward pressure on fees, to ongoing volatility and rising taxes. But one issue could have a greater impact than all of the others combined: the generational shift taking place as aging Baby Boomers retire, spend down their assets and transfer wealth to their Gen X and Millennial heirs.

The Great Transfer of Wealth

A great transfer of wealth is taking place as Boomers pass on their financial legacy to the younger generation. Over the next 30 to 40 years, $30 trillion — almost twice the GDP of the United States — will pass from Boomers to their heirs. While research has shown that heirs typically find a new advisor upon inheriting their parent's fortune, this paper will explore strategies and tools you can implement within your practice to set up a proper legacy plan and, ultimately, retain the heirs of your clients.

Serving Current and Future Clients

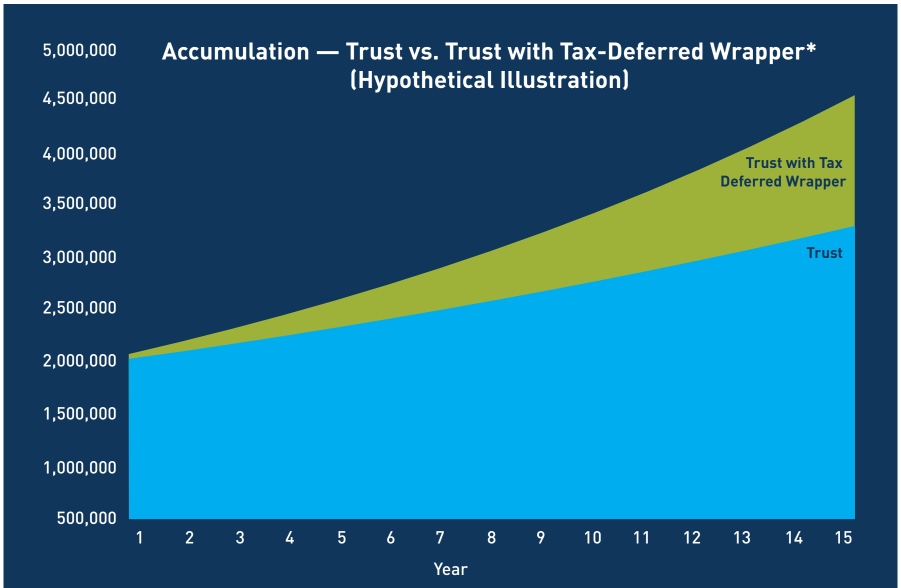
In a recent survey of more than 350 RIAs and fee-based advisors, nearly two-thirds say estate and legacy planning is important or extremely important to their clients. Without a proper legacy plan in place, the wealth you worked so hard to build for your client may be subject to probate, creditors, legal fees and taxes. Your expertise in holistic planning, investment management and structuring trusts is essential to maximize and protect their assets.

Another key to effective legacy planning is having a strategy in place to retain the heirs of current clients. As we learned in our recent *Advisor Authority* study of 535 RIAs and fee-based advisors, retaining heirs is important to all advisors, especially those that are the most successful. While 72% of all advisors have a strategy in place to retain the heirs of their current clients, 87% of High Earning Advisors[1] and 93% of Advisors with High AUM[2] make the retention of heirs a primary focus.

Vehicles for Legacy Planning

Trusts are widely used for legacy planning, especially with high net worth and ultra-high net worth clients. Jefferson National's recent Legacy Planning survey shows that 72% of RIAs and fee-based advisors use trusts as a vehicle for wealth transfer for their clients. Whether making charitable contributions or providing for family members, trusts can offer many advantages, helping to reduce estate and gift taxes, avoid probate, and protect assets from creditors and lawsuits.

While there are several benefits to using trusts for legacy planning, many advisors overlook an important opportunity to minimize taxes by funding a trust with an Investment-Only Variable Annuity (IOVA). Tax rates on trust income are high — even at very low thresholds. In 2016, the maximum tax rate of 39.6% comes into effect at just $12,400 of trust income, compared to $466,950 of income for an individual taxpayer. By funding a trust with an IOVA, no income will be recognized until the beneficiary begins making withdrawals, so it will continue to accumulate tax-deferred. Controlling how much and when taxes are paid provides a measurable benefit. The scenario below illustrates how much a client can save by funding a trust with an IOVA.



*Hypothetical example for illustrative purposes only. This illustration shows the hypothetical growth of $2m trust assets vs. a trust with tax-deferral provided by an IOVA. Projection is based on an assumed annual growth rate of 6%. The illustration assumes a 39.6% tax bracket at $12,400 of trust income. The illustration does not take into account advisory fees or underlying fund expenses.

Joe Smith invests $2 million in a trust for his daughter, Sally. He consults with his advisor, and the trustee opens up a Monument Advisor contract, which will shelter the assets and avoid income taxes on the gains, allowing his investment to grow tax deferred.

After 15 years of tax deferred accumulation, Joe passes away and the Monument Advisor contract amounts to almost $4.8 million. If Joe had not invested his money in Monument Advisor, the trust would only amount to a little over $3.4 million. Because of the benefit of tax deferral, Sally will have over $1.3 million more to put towards her retirement goals.

The most successful advisors focus on legacy planning initiatives, provide family-centric planning and implement solutions to attract and retain the next generation of investor. By evolving your practice in this way, you'll put your clients — and your firm — in the best position for the future." – *Laurence Greenberg, President, Jefferson National*

While traditional VAs rarely work for funding a trust — due to high asset-based fees, limited fund choices, costly commissions and complex guarantees — a new generation of IOVAs have a simple, transparent structure and lower costs that can maximize tax-deferred growth. The ideal IOVA also offers a broad choice of underlying funds, including liquid alts and managed volatility funds, allowing you to build a tax-advantaged portfolio that is truly diversified and can provide downside protection with upside potential.

The competition for retaining clients and their heirs is increasing. You can differentiate your firm to create more value for current and future generations by developing an expertise in wealth transfer and legacy planning. Partner with legal and tax experts to provide the most comprehensive solutions.

And, as you consider using trusts within a comprehensive legacy plan, consider tax-optimizing those trusts with Investment-Only Variable Annuities. Low-cost, no-load IOVAs are a tax-advantaged investing solution with an extensive lineup of funds and virtually no contribution limits that can help clients control how much is paid in taxes — and when those taxes are paid — to build more wealth. Generations are shifting and $30 trillion or more is changing hands as clients are transferring wealth to their heirs. The most successful advisors focus on legacy planning initiatives, provide family-centric planning and implement solutions to attract and retain the next generation of investor. By evolving your practice in this way, you'll put your clients — and your firm — in the best position for the future.

Laurence Greenberg is President of Jefferson National, innovators of the industry's first flat-fee Investment Only Variable Annuity (IOVA) with the industry's largest selection of underlying funds. To learn more, please visit http://www.jeffnat.com or call 1-866-WHY-FLAT (866-949-3528).

[1]Those with personal yearly income from advisor business of over $500,000.

[2]Those who individually manage a total AUM of $250 million or more.

Types of Trusts That Add Value for Your Clients

1

REVOCABLE TRUST

- Valuable for grantors in a high tax bracket to avoid investment income during working years, and leverage tax deferral until taking distributions
- Assets in the trust will avoid probate at death
- Trustee can manage trust assets if grantor is unable or unwilling
- Trust terms dictate transfer of assets after grantor's death, acting as a "will substitute"

2

NET INCOME WITH MAKEUP CHARITABLE REMAINDER UNITRUSTS (NIMCRUTS)

- Reduce taxation of highly appreciated assets
- Take a tax deduction for charitable contribution the year NIMCRUT is established
- Retain an ongoing stream of income, while controlling the timing of income distribution until it is needed in retirement

3

CREDIT SHELTER TRUSTS/BYPASS TRUSTS

- Part of a plan to reduce estate taxes
- Set up by one spouse for the benefit of the surviving spouse and any children
- If surviving spouse has sufficient resources for current needs, putting assets into an IOVA keeps current trust income to a minimum — and saves more future assets for children
- Can hold one annuity for each child within the trust, making it easier to distribute when the trust terminates

4

SPECIAL NEEDS TRUST

- Established to keep trust assets separate from the assets of the special needs child to help preserve Supplemental Security Income and Medicaid benefits
- Premature distributions from an IOVA will likely be exempt from a 10% IRA penalty for early withdrawal since the annuitant is likely disabled

10350 Ormsby Park Place | Louisville, Kentucky 40223 | 866.667.0564 | **www.jeffnat.com**