# John and Katie Winters

**360 WEALTH MANAGEMENT -ADVANTAGE**
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I/We have received and read this Disclaimer page and understand its contents and, therefore, the limitations of the report. Furthermore, I understand that none of the calculations and presentations of investment returns are guaranteed.

Client(s): ______________________________ ______________

John Winters Date

______________________________ ______________

Katie Winters Date

Advisor: ______________________________ ______________

William Wilkinson, CFP ChFC, CLU, CASL, AIF Date

# Life Insurance Advantage

A wealth transfer program is intended to efficiently maximize the transfer of wealth and minimize costs such as taxes and probate. This concept compares three methods of transferring wealth to younger generations.

- Set aside money in the estate, continue to invest it, and then leave it to heirs upon death
- Create a lifetime gifting program
- Create a lifetime gifting program using properly structured life insurance

When analyzing these methods, there are two main risks that can have a negative impact; taxes and timing.

## Taxes

The first method, accumulating money inside the estate, results in estate taxes, probate costs and estate delays. This method also results in annual income and/or capital gains taxes. Estate and income taxes when combined can greatly reduce the efficiency of the plan resulting in a lower net wealth transfer.
The second method, lifetime gifting, avoids estate taxes if properly structured. This direct gifting arrangement is more efficient than accumulating money within the donor’s estate but it does not eliminate the second risk, timing.

## Timing

For either of the first two methods, setting aside money in the estate or making annual gifts, the biggest risk may be timing. It could take many years and even decades to accumulate the desired wealth transfer using annual savings or gifts. Furthermore, if the donor dies unexpectedly, the wealth transfer plan could fall considerably short of the intended amount.

## Life Insurance as a Strategy

The third method, gifting with life insurance, provides an effective wealth transfer strategy that solves the risks associated with the other two methods. Life insurance, if properly owned and structured, avoids income and estate taxes. Most importantly, permanent life insurance is self-completing since the death benefit is paid out regardless of when the donor dies. The timing risk is completely removed and replaced with a reliable insurance death benefit for the heirs.

Permanent life insurance can provide an attractive rate of return for the heirs. The effective rate of return is high in the early years and typically provides a competitive rate of return even beyond normal life expectancy. In addition, unlike the first two methods where accumulation funds could experience negative returns, life insurance with appropriate guarantees can ensure a positive and competitive rate of return. It takes many years, if at all, for either of the first two methods to match the life insurance effective rate of return. Life insurance policies are subject to substantial fees and charges. Investment portfolios are subject to market risk. Death benefit guarantees are subject to the claims-paying ability of the issuing life insurance company. Loans will reduce the policy’s death benefit and cash surrender value, and have tax consequences if the policy lapses.

# Abstract

This concept demonstrates the benefit of having life insurance held outside of the estate versus either life insurance included in the estate or another type of accumulation fund outside of the estate (i.e. a lifetime gifting program).

The following data will be used to compare life insurance with the accumulation funds.

| | | | |
|---|---|---|---|
| Death Benefit: | | Estate Tax Rate: | **50.00%** |
| Annual Outlay: | | Effective Tax Rate: | **20.00%** |
| Years of Payment Outlay: | | Fund Return: | **5.00%** |
| | | Years To Analyze: | **30** |

**Please fill out the inputs above and click 'Recalculate'.**

*The out of estate value assumes the accumulation fund was structured properly outside of the estate and is therefore not subject to any estate taxes. This report does not take into account the impact, if any, of annual or lifetime gift taxes.This example is for planning purposes only. Actual results will vary based upon your specific situation. Certain assumptions are based on information provided by you. Consult your advisor(s) when making tax and legal decisions. Investment and insurance values are illustrative only, not guarantees.*

# In Estate Fund Summary

The death benefit of an insurance policy may often provide greater wealth transfer to heirs when compared to the alternative of investing an equivalent outlay in an in-estate accumulation fund.

For this comparison we will use a permanent life insurance policy with an annual premium of paid for years and a death benefit of . The accumulation fund investment alternative considered will have an annual pre-tax rate of return of **5.00%**, an annual effective tax rate of **20.00%**, and an estate tax rate of **50.00%**. We will project this analysis for **30** years.

## **Breakeven** Age

**55 (2013) Years Old**

***Age at which the accumulation funds break even with the life insurance death benefit, based on the assumptions above.***

No Data Available



## **Breakeven** Rate of Return

**0.00% Per Year**

***Required return on accumulation fund to break even with the life insurance death benefit in year 30.***

| Future Years | Req'd Return |
|---|---|
| 10 | 0.00% |
| 15 | 0.00% |
| 20 | 0.00% |

## **Breakeven** Outlay

**+$0 Per Outlay**

***Additional outlay required in order to break even with the life insurance death benefit in year 30.***

*The out of estate value assumes the accumulation fund was structured properly outside of the estate and is therefore not subject to any estate taxes. The life insurance values assume the life insurance is structured properly outside of the estate and is therefore not subject to any estate taxes. Life insurance death benefits are also received income tax free.*

# In Estate Fund Details

The data below reflects the year over year calculations used to compare a permanent life insurance death benefit with an in-estate accumulation fund.

| | 10 Years | 15 Years | 20 Years | 30 Years |
|---|---|---|---|---|
| **Age** | 63 | 68 | 73 | 83 |
| **In-Estate Net Value** | $0 | $0 | $0 | $0 |
| **Life Insurance Benefit** | $0 | $0 | $0 | $0 |

| | | | | In-Estate Fund | | | | | Life Insurance | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Age | Outlay | Cumulative Outlay | Balance Forward | After-Tax Growth (4.000%) | Ending Balance | Estate Taxes (50.00%) | Wealth Transfer | Wealth Transfer | Effective Annualized Return |
| **2012** | **54** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2013** | **55** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2014** | **56** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2015** | **57** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2016** | **58** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2017** | **59** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2018** | **60** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2019** | **61** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2020** | **62** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2021** | **63** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2022** | **64** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2023** | **65** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2024** | **66** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2025** | **67** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2026** | **68** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2027** | **69** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2028** | **70** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2029** | **71** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2030** | **72** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2031** | **73** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2032** | **74** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |



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| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2033 | 75 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| 2034 | 76 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| 2035 | 77 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| 2036 | 78 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| 2037 | 79 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| 2038 | 80 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| 2039 | 81 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| 2040 | 82 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| 2041 | 83 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |

*The out of estate value assumes the accumulation fund was structured properly outside of the estate and is therefore not subject to any estate taxes. The life insurance values assume the life insurance is structured properly outside of the estate and is therefore not subject to any estate taxes. Life insurance death benefits are also received income tax free.*

# Out of Estate Fund Summary

The death benefit of an insurance policy may often provide greater wealth transfer compared to the alternative of a direct gifting plan where the recipients invest the annual gift and create an out-of-estate accumulation fund.

For this comparison we will use a permanent life insurance policy with an annual premium of paid for years and a death benefit of . The out of estate gifting alternative considered will have an annual pre-tax rate of return of **5.00%**, and annual effective tax rate of **20.00%**. We will project this analysis for **30** years.

## **Breakeven** Age

**55 Years Old**

***Age at which the accumulation funds break even with the life insurance death benefit, based on the assumptions above.***

No Data Available



## **Breakeven** Rate of Return

**0.00% Per Year**

***Required return on accumulation fund to break even with the life insurance death benefit in year 30.***

| *Future Years* | *Req'd Return* |
|---|---|
| 10 | **0.00%** |
| 15 | **0.00%** |
| 20 | **0.00%** |

## **Breakeven** Outlay

**+$0 Per Outlay**

***Additional outlay required in order to break even with the life insurance death benefit in year 30.***

*The out of estate value assumes the accumulation fund was structured properly outside of the estate and is therefore not subject to any estate taxes. This report does not take into account the impact, if any, of annual or lifetime gift taxes. The life insurance values assume the life insurance is structured properly outside of the estate and is therefore not subject to any estate taxes. Life insurance death benefits are also received income tax free.*

# Out of Estate Fund Details

The data below reflects the year over year calculations used to compare a permanent life insurance death benefit with an out-of-estate accumulation fund.

| | 10 Years | 15 Years | 20 Years | 30 Years |
|---|---|---|---|---|
| **Age** | 63 | 68 | 73 | 83 |
| **Out of Estate Net Value** | $0 | $0 | $0 | $0 |
| **Life Insurance Benefit** | $0 | $0 | $0 | $0 |

| | | | | Out of Estate Fund | | | Life Insurance | |
|---|---|---|---|---|---|---|---|---|
| Year | Age | Outlay | Cumulative Outlay | Balance Forward | After-Tax Growth (4.000%) | Wealth Transfer | Wealth Transfer | Effective Annualized Return |
| **2012** | **54** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2013** | **55** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2014** | **56** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2015** | **57** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2016** | **58** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2017** | **59** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2018** | **60** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2019** | **61** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2020** | **62** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2021** | **63** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2022** | **64** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2023** | **65** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2024** | **66** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2025** | **67** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2026** | **68** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2027** | **69** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2028** | **70** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2029** | **71** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2030** | **72** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2031** | **73** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2032** | **74** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2033** | **75** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |



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| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2034** | **76** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2035** | **77** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2036** | **78** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2037** | **79** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2038** | **80** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2039** | **81** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2040** | **82** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2041** | **83** | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |

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# Wealth Transfer Details

The table below displays the underlying data for the comparison, showing the annual outlay in comparison with the subsequent balances and death benefit of the corresponding strategies.

## **Wealth Transfer** Over Time



No Data Available

| | | | | In-Estate Fund | | | Out of Estate Fund | | | Life Insurance | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | Age | Outlay | Cumulative Outlay | Balance Forward | After-Tax Growth (4.000%) | Wealth Transfer | Balance Forward | After-Tax Growth (4.000%) | Wealth Transfer | Wealth Transfer | Effective Annualized Return |
| **2012** | **54** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2013** | **55** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2014** | **56** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2015** | **57** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2016** | **58** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2017** | **59** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2018** | **60** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2019** | **61** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2020** | **62** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |

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| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2021** | **63** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2022** | **64** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2023** | **65** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2024** | **66** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2025** | **67** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2026** | **68** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2027** | **69** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2028** | **70** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2029** | **71** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2030** | **72** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2031** | **73** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2032** | **74** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2033** | **75** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2034** | **76** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2035** | **77** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2036** | **78** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2037** | **79** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2038** | **80** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2039** | **81** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2040** | **82** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |
| **2041** | **83** | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | 0.00% |

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