



8801 Horizon Blvd., N.E. Suite 320 | Albuquerque, NM 87113 | Phone: 505-265-8511 Ext 106 | 800-274-0433 Ext 106 | Fax: 505-265-8513

Legacy Planning with Annuities

Passing the wealth: Multigenerational Income Planning with Annuities

Grandparents love their children, but they are *in love* with their grandchildren. An AARP survey of grandparents shows that 90 percent of them believe they play an important role in their grandchildren's lives.

While there are many different roles that grandparents play in their grandchildren's lives, nearly 100 percent of the survey participants said that role involves spending money on grandchildren. While the primary reason grandparents spend money on their grandchildren is for gifts, it is also very often for necessities such as education (53 percent) and medical or dental expenses (23 percent). Taking this one step further, most grandparents in the survey agreed they would make sacrifices rather than let their financial situation affect their grandchildren.

Of course, a grandparent's financial support of their grandchildren isn't limited to their time on earth together. As grandparents begin turning their retirement savings into an income stream, how they enjoy the fruits of their labor may not be the only thing on their mind. At this stage in life, they may also be considering how they will pass on parts of their estate to the next generations.

As advisors help facilitate this conversation with their clients, one compelling option that will allow for grandparents to create a multigenerational income plan with non-qualified money is an immediate annuity. Instead of leaving a lump sum of money, an immediate annuity can provide a grandparent the opportunity to create a living legacy by stretching an income stream across multiple generations. In some cases, depending on grandparents' circumstances and planning and beneficiary contract decisions, these strategies can help secure the financial future of children, grandchildren and beyond.

Consider a hypothetical example in which Jim and Mary, 65 year-old grandparents to Jennifer, age five, purchase an **immediate annuity (SPIA)**. Jim and Mary name Jennifer as the annuitant and name as the beneficiary Jennifer's mother, their 40 year-old daughter Beth. They select a certain period of 100 years, whereby the income is guaranteed to be paid for the longer of 100 years or Jennifer's life time. Now assume the following:

- Jim and Mary have both passed away by age 90, collecting an income over 25 years that adjusted with the market value of the underlying investment options, all the while retaining control of their investment.
- Upon their passing, Beth (now 65 years old) assumed ownership of the contract and began receiving the income payments, still payable for as long as Jennifer survives. Beth now names Jennifer (now 30 years old) the beneficiary.
- Upon Beth's passing at age 90, Jennifer assumes ownership of the contract at age 55, and begins directly receiving the lifetime income payments.

At this point, Jennifer has 50 years of remaining income. Assuming the likely scenario in which Jennifer does not live to receive all the remaining certain period payments, the remaining payments can be passed to her named beneficiary.

Of course, stretching the income over an extended period of time does significantly reduce the initial income payments. However, this particular use of an immediate annuity is about multigenerational legacy planning and wealth transfer, not about wealth accumulation or retirement income.



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A real-life example

As a real-life example of how a **multigenerational income plan** can be implemented, and how powerful it can be in demonstrating someone's love for their family, below is an excerpt from an actual letter an annuity contract holder left with her advisor who assisted her with her estate planning, expressing her wishes for her immediate variable annuity that provides a lifetime income and an access period during which additional withdrawals may be made:

My estate plan is written to distribute the majority of my assets immediately to my heirs. However, I have purposefully set aside a portion of my estate to transfer, not as a lump sum, but as an income stream that is designed to continue through the life of my youngest grandchild and great-grandchild currently living at signing...I have created an enduring legacy of monthly income that will continue to provide through multiple generations...It is my strongest desire that this gift of monthly income, be allowed to continue through the life of my third and fourth generations as a testimony of my love for family and the enduring legacy....

Her advisor, Jon Winteregg with Financial Resource Advisors, commented, *"For over 28 years, I have helped high-net-worth individuals and their families manage investments and implement effective estate plans. Yet, I find this innovative use of an immediate annuity to help clients pass in their memory a multi-generational income stream, as well as lump sum assets, onto their heirs to be quite profound. This strategy brings great joy in knowing that more than just advising a client, I have helped generations of a family experience what it means to be a living part of a lasting legacy."*

Multi-generational income planning represents a unique value proposition of annuities, which may commonly be overlooked when concentrating on the retirement income planning aspects of annuities. As advisors speak with their clients about how an annuity might fit into their portfolio, it's important that clients understand that annuities are not just "one trick ponies" that are only about guaranteed retirement income. They can serve various client needs. Utilizing an annuity for multi-generational legacy planning may not be right for every client, and some may have different experiences than others, since upon ownership, the beneficiary always reserves the right to cash out the annuity at the first opportunity for other expenses. However, for those who don't need to maximize the current income from a specific asset, it does provide a unique **planning strategy** that enables a client to transfer accumulated wealth through an income stream to grandchildren they may not have the chance to watch fully grow, and potentially future generations they may never even meet.

Sincerely,

Kenneth Sapon CLU®, CLTC, LUTCF, R.Ph.
President
CHAMPION AGENCY, INC.