

A Comprehensive Modular Program

Foundational Concepts

Module 1

The Transition Phase of Retirement and Your Business

Module 2

Framework for Retirement Income Planning

Module 3

Income Resources and Budgeting Basics

Major Activities and Decisions

Module 4

Tapping Into Social Security

Module 5

Expanding the Scope of Investments

Module 6

Additional Strategies for Generating Retirement Income

Advanced Strategies and Implementation

Module 7

Optimal Withdrawal Strategies for Tax-Advantaged Accounts

Module 8

Identifying Target Clients and Building a Marketing Strategy

Module 9

Tying It All Together



Module 6: Additional Strategies for Generating Retirement Income

Income Planning for Clients Nearing Retirement

Pershing[®]


BNY MELLON

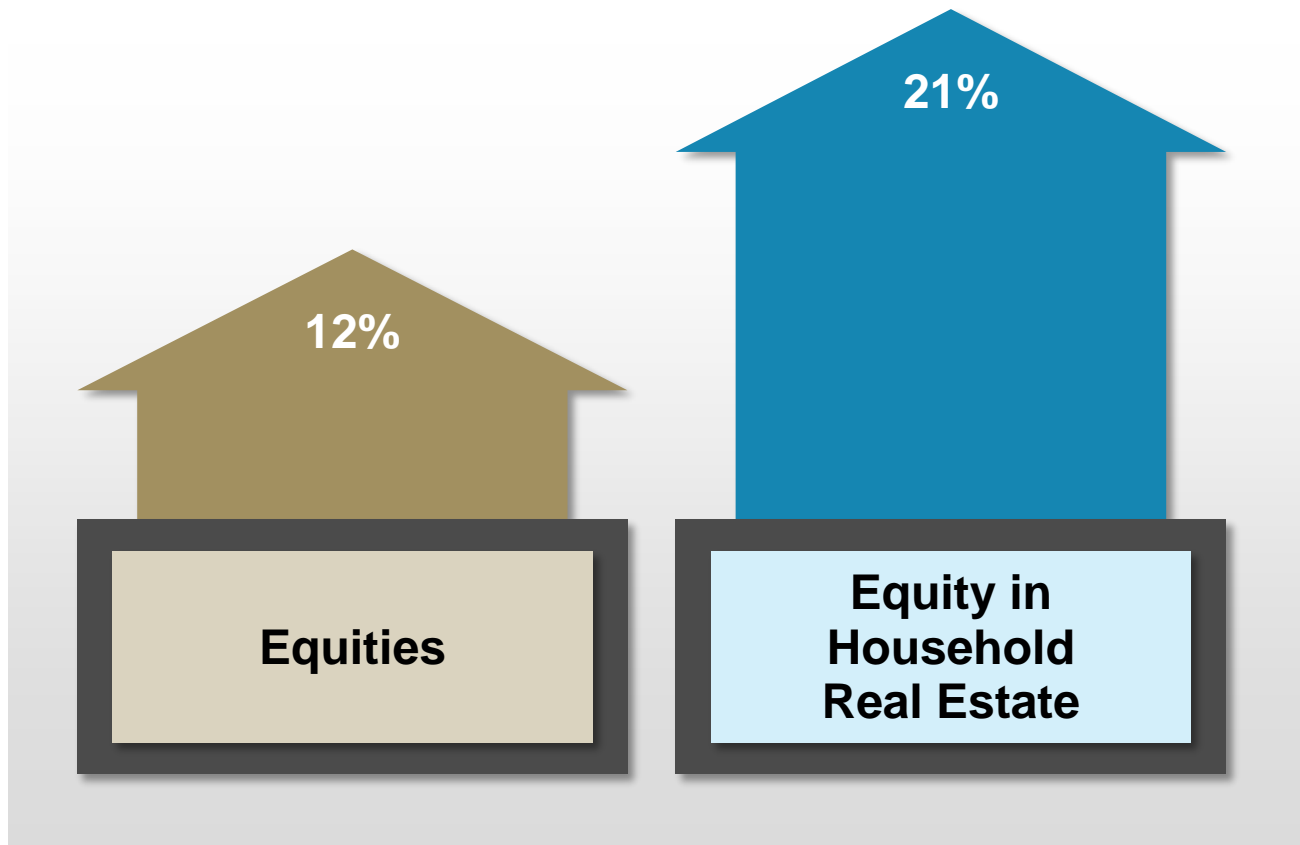
Advanced Strategies for Generating Retirement Income

Converting real estate assets into retirement income

Converting life insurance policies into retirement income

U.S. Real Estate Assets

Percentage of Americans' Assets Represented by:



Source: As of March 31, 2015. Federal Reserve Flow of Funds Report, June, 2015. Table B.101.

Converting Real Estate Assets Into Income

Common Ways Homeowners Can Convert Equity to Retirement Income

Sale

**1031
Exchange**

**Net Income
Charitable
Remainder
Trust**

**Reverse
Mortgage**

1031 Exchange

1

The properties exchanged must be held as investments or a source of income

2

The properties must be “like-kind”

3

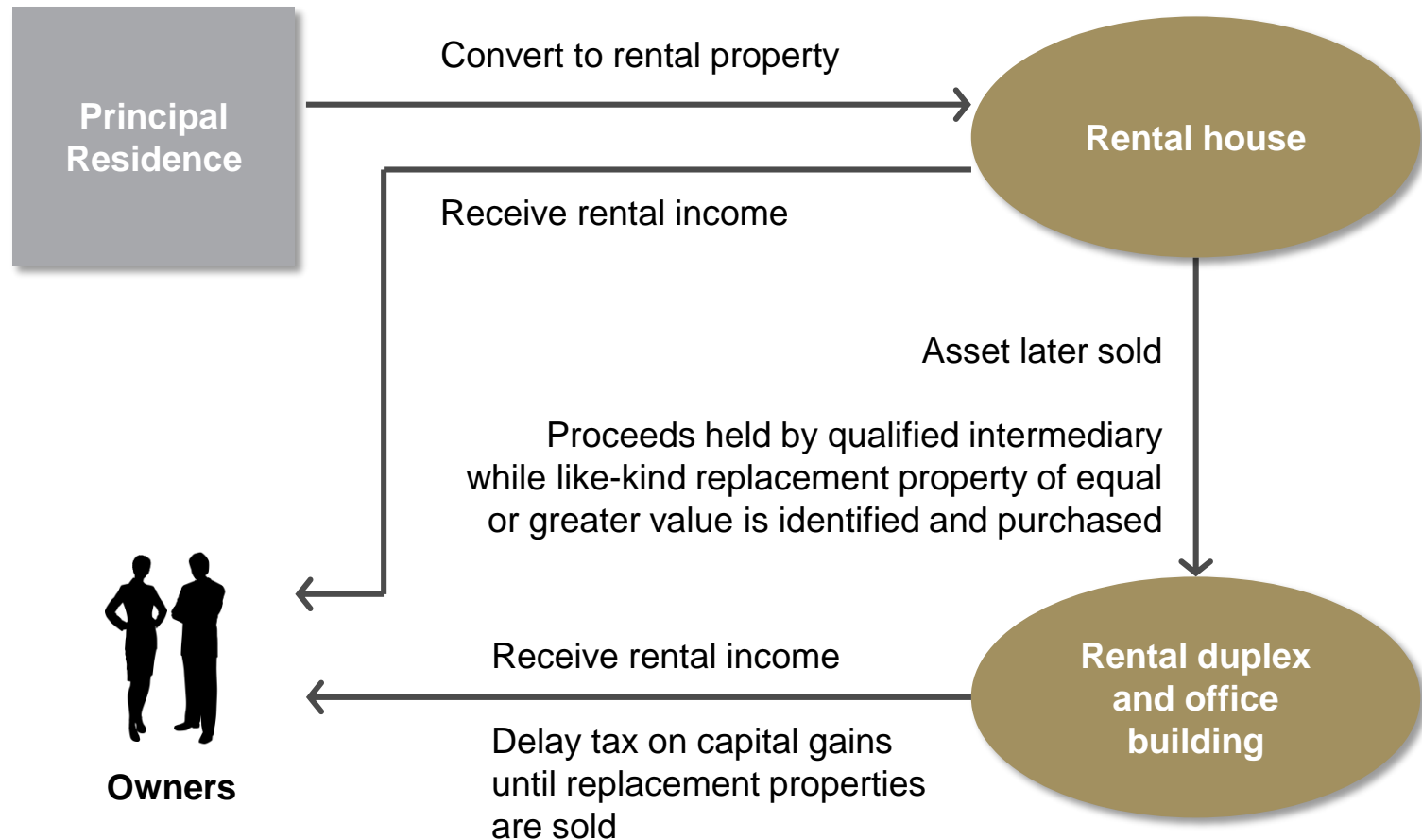
The purchase and sale of the properties do not need to occur simultaneously (deferred exchange)—but strict rules apply

4

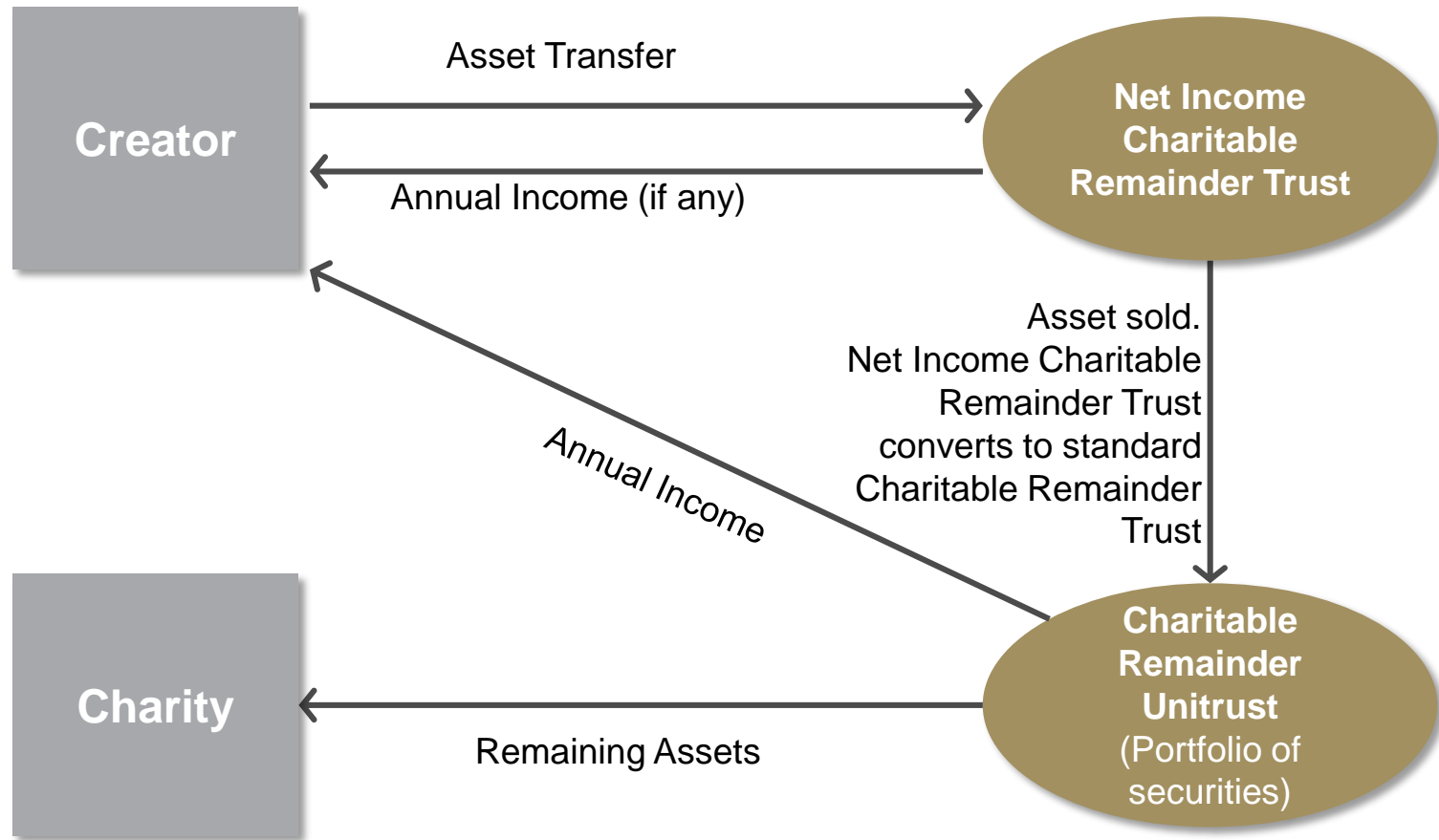
The client cannot receive the proceeds from the sale before the exchange is complete

Source: [irs.gov/uac/Like-Kind-Exchanges-Under-IRC-Code-Section-1031](https://www.irs.gov/uac/Like-Kind-Exchanges-Under-IRC-Code-Section-1031)

1031 Exchange: An Example



Net Income Charitable Remainder Trust (NICRUT)



This represents a hypothetical example that assumes the client does not immediately need any income from the net income charitable remainder trust (NICRUT). Each situation is different and depends on an individual's circumstances. Clients should be certain to consult with a legal and tax advisor to discuss whether this strategy is suitable for their needs.

Reverse Mortgages

Three types

Single-Purpose Reverse Mortgages

(offered by some state and local government agencies and nonprofit organizations)

Federally-Insured Reverse Mortgages

(Home Equity Conversion Mortgages [HECMs] backed by HUD)

Proprietary Reverse Mortgages

(Private loans backed by the companies that develop them)

Primary Benefit

- Access to home equity while continuing to occupy the home
- Reverse loan advances currently are not taxable
- Reverse loan advances generally do not impact Social Security or Medicare benefits
- Availability of funds from home allows client more flexibility in deciding when to liquidate other investments

Primary Risks

- High closing costs
- Total debt increases as the loan funds are advanced to the client and interest on the loan accrues
- May impact eligibility for Medicaid
- Loan would be payable if client could not occupy home due to poor health, failed to maintain the property or did not pay property taxes and insurance premiums

Source: <http://www.consumer.ftc.gov/articles/0192-reverse-mortgages>

Converting Life Insurance Policies to Retirement Income

Surrender life policy for cash value

Life-to-annuity (1035) exchange

Primary Benefit

- Lump-sum proceeds can be used at client's discretion
- Taxation of proceeds is deferred until amounts are withdrawn or paid out from annuity
- If exchanged for a variable annuity, client may have upside potential from underlying investments

Primary Risks

- Proceeds may be fully or partially taxable as income
- Market volatility may negatively impact long-term contract value
- Large withdrawals (i.e., above guaranteed annual withdrawal) or lump-sum redemption may involve fees or surrender charges

Note: Licensed insurance agents regulatory obligations in making recommendations to convert a life insurance policy. For more information, please refer to NASD Notice to Members 99-35 and 00-44.

Source: finra.org


An Example: Policy Surrender Versus 1035 Exchange

	Policy Surrender	1035 Exchange
Cash value	\$100,000	\$100,000
Less: Cost basis	<u>-\$80,000</u>	<u>-\$80,000</u>
Taxable gain	\$20,000	\$20,000
Tax rate	x 25%	x 0%
Tax due	<u>\$5,000</u>	<u>\$0</u>
Net proceeds to purchase annuity	<u>\$95,000</u>	<u>\$100,000</u>
Annuity cost basis	\$95,000	\$80,000


Basic Facts

- A 1035 exchange may be possible with whole, variable or universal life insurance policies
- A portion of a life policy may be exchanged
- Multiple life policies insuring the same person may be consolidated into a single annuity contract benefiting that person
- The outstanding balance on a policy loan is treated as taxable income
- Subsequent distributions from the annuity will be fully or partially taxable and could involve fees and charges
- Variable life insurance cash values are invested in portfolios of securities, and the cash value will fluctuate


Some Conclusions




Real estate assets can be converted into retirement income



Methods: sale, 1031 exchange, net income charitable remainder trust, reverse mortgage



Life insurance policies can also be converted to retirement income



Team up with insurance professionals and real estate and tax attorneys

Resources

Educational Websites	
Federation of Exchange Accommodators	Gotoretirement.com
Financial Planning Association	HUD.gov (Home Equity Conversion Mortgages for Seniors)
HUD.gov (FAQs on Reverse Mortgages)	Lifehappens.org
IRS Real Estate Tax Tips	FINRA Investor Alert: 1035 Exchanges
Nolo.com	FINRA Notice Regarding the Sale of Variable Life Insurance
Federal Trade Commission	U.S. Department of Housing and Urban Development, Home Equity Conversion Mortgages for Seniors

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