



Annuity Asset Maximization

prepared for

Frank Sample

Prepared By:

Steve Taber

Mercury Financial Group

2200 Ross Avenue

Dallas, TX. 75201

877-842-1212



Mercury Financial Group

A LIFEMARK PARTNER

ph 214.358.0011

877.842.1212

fax 214.210.5998

www.emercury.org

THE POTENTIAL PROBLEM

Because of the tax-deferred nature of annuities, they can be an excellent wealth accumulation vehicle. Unfortunately, with the tax law being what it is, however, annuities are probably not the most tax efficient wealth transfer vehicle. And when we're talking about Estate Planning, we are talking in terms of wealth transfer. And that is where repositioning the annuity dollars into a more efficient transfer vehicle needs to be considered.

Why is that? Because annuities, like any tax-deferred asset such as an IRA or other qualified plan, are double taxed at death. Because the annuity has grown tax deferred, when the client passes away, that growth is now subject to income tax—at the heir's income tax rate! What's more, the annuity value can also be hit with estate tax (assuming the overall estate will be) because it is part of the client's overall estate.

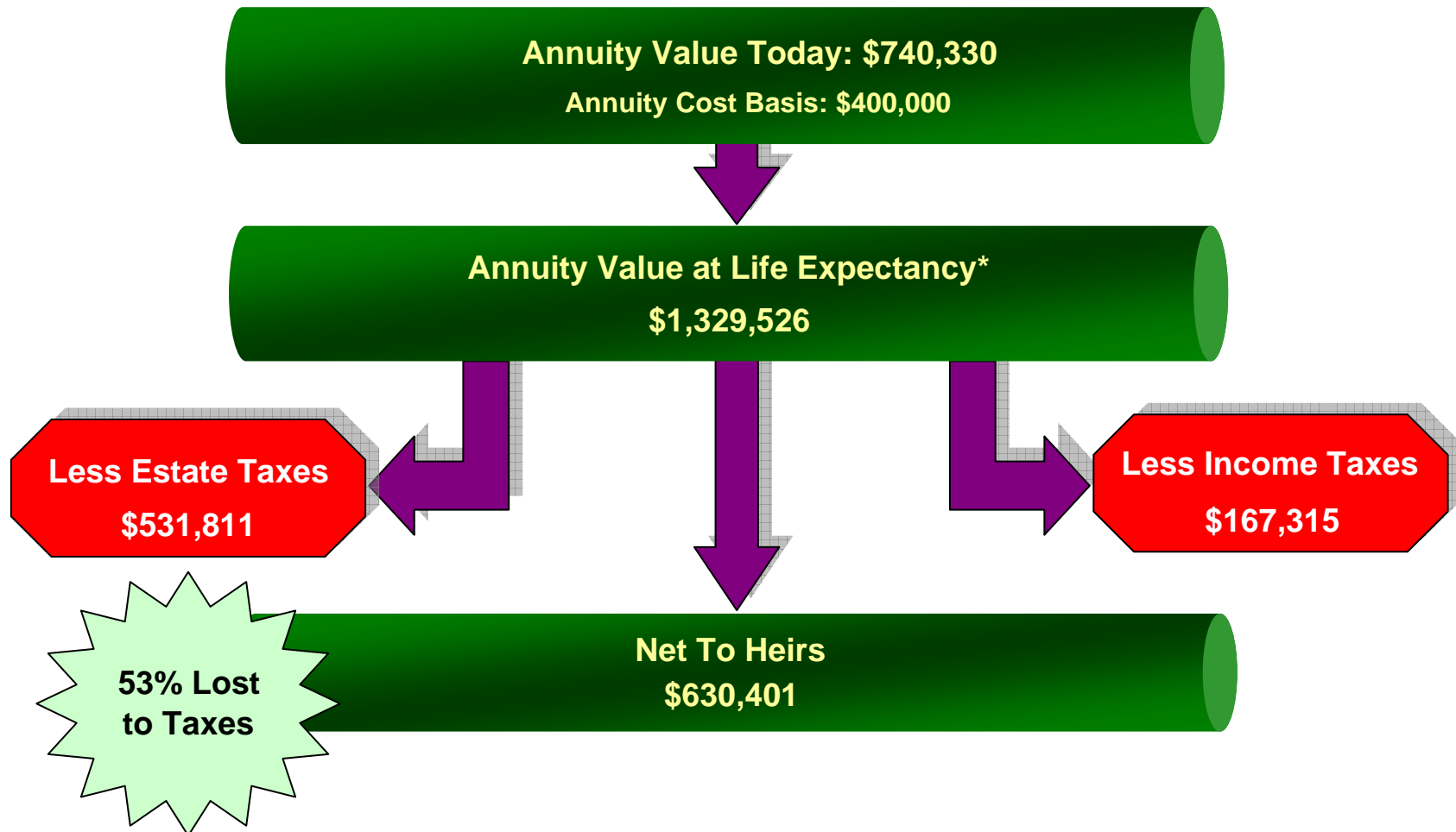
So it is quite common to see a combined double tax rate of over 70% on the annuity's value! Yes, technically, there is a small credit for the IRD tax paid, but the bottom line is the client held a double taxed asset at death. And that's why annuities may not be the most efficient wealth transfer vehicle.

THE SOLUTION

Fortunately, there is a way to preserve the entire value of the annuity for your heirs and maybe even leverage the value higher. This technique is best suited for individuals who do not contemplate using their annuities for living expenses during retirement, and who have sufficient other assets for support.

Annuity Maximization is a strategy whereby a portion of the annuity's value is systematically placed into an Irrevocable Trust which purchases a life insurance policy on your life. This presentation demonstrates the impact of this strategy - how combining both life insurance and annuities can help you solve the annuity tax problem and substantially increase the legacy you leave to your heirs.

The Impact of Taxes on the Value of Your Annuity

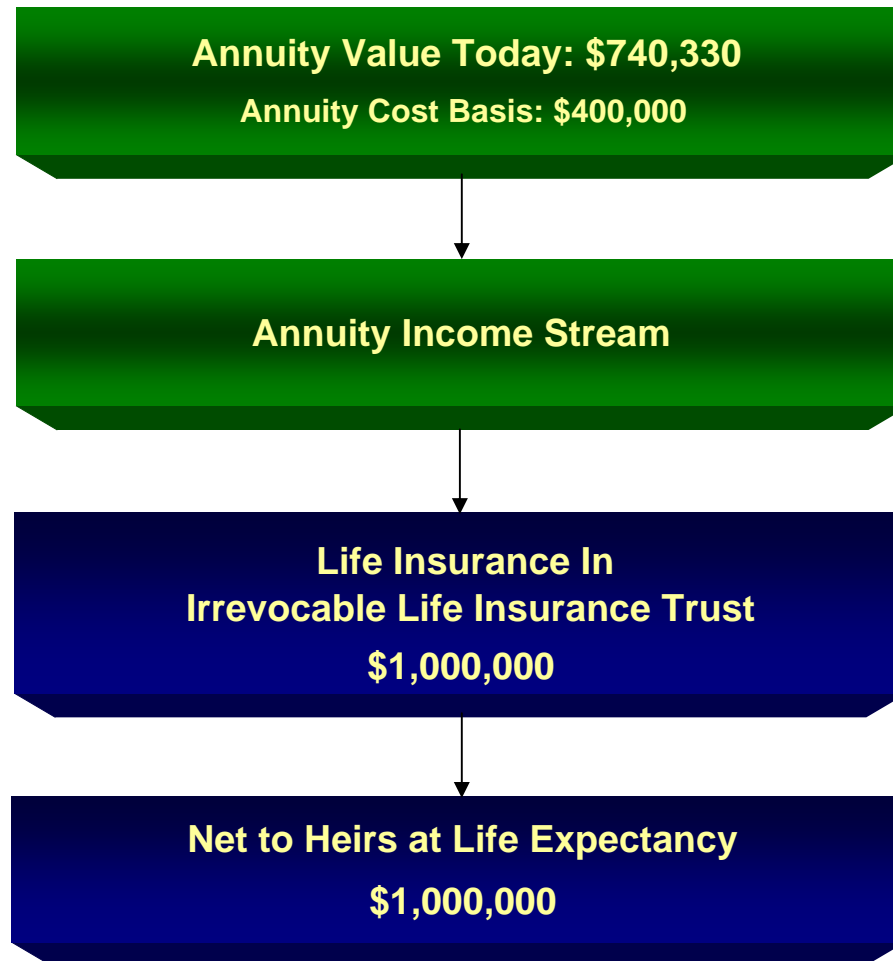


*The projected annuity growth rate of 5.0% is illustrative only and is not a forecast or projection of future results.

Using Annuity Repositioning Strategy

Prepared for Frank Sample

Maximizing the Value of Your Annuity for Your Heirs



Analysis of Annuity Upon Death Using Current Approach

Prepared for Frank Sample

Year	Projected Annuity Value*	Federal Estate Tax**	Income Taxes	Net to Heirs	Percent Lost To Taxes
2007	740,330	296,132	61,259	382,939	48.27%
2008	777,347	310,939	67,922	398,486	48.74%
2009	816,214	326,486	74,918	414,810	49.18%
2010	857,025	0	137,107	719,917	16.00%
2011	899,876	359,950	89,978	449,948	50.00%
2012	944,870	377,948	98,077	468,845	50.38%
2013	992,113	396,845	106,580	488,687	50.74%
2014	1,041,719	416,687	115,509	509,522	51.09%
2015	1,093,805	437,522	124,885	531,398	51.42%
2016	1,148,495	459,398	134,729	554,368	51.73%
2017	1,205,920	482,368	145,066	578,486	52.03%
2018	1,266,216	506,486	155,919	603,811	52.31%
2019	1,329,526	531,811	167,315	630,401	52.58%
2020	1,396,003	558,401	179,280	658,321	52.84%
2021	1,465,803	586,321	191,844	687,637	53.09%
2022	1,539,093	615,637	205,037	718,419	53.32%
2023	1,616,048	646,419	218,889	750,740	53.54%
2024	1,696,850	678,740	233,433	784,677	53.76%
2025	1,781,692	712,677	248,705	820,311	53.96%
2026	1,870,777	748,311	264,740	857,726	54.15%

*The projected annuity growth rate of 5.0% is illustrative only and is not a forecast or projection of future results.

**Estate tax rates are based on the input provided by the client and adjusted to reflect the lower of the client rate or the tax rates provided by the Economic Growth and Tax Relief Reconciliation Act of 2001. Income tax rates reflect the Income in Respect to a Decedent deduction in years where there is an estate tax liability. Any applicable state death taxes or credits have not been included in these calculations.

Analysis of Annuity Upon Death Using Current Approach

Prepared for Frank Sample

Year	Projected Annuity Value*	Federal Estate Tax**	Income Taxes	Net to Heirs	Percent Lost To Taxes
2027	1,964,316	785,726	281,577	897,013	54.33%
2028	2,062,532	825,013	299,256	938,263	54.51%
2029	2,165,658	866,263	317,818	981,576	54.68%
2030	2,273,941	909,576	337,309	1,027,055	54.83%
2031	2,387,638	955,055	357,775	1,074,808	54.98%

*The projected annuity growth rate of 5.0% is illustrative only and is not a forecast or projection of future results.

**Estate tax rates are based on the input provided by the client and adjusted to reflect the lower of the client rate or the tax rates provided by the Economic Growth and Tax Relief Reconciliation Act of 2001. Income tax rates reflect the Income in Respect to a Decedent deduction in years where there is an estate tax liability. Any applicable state death taxes or credits have not been included in these calculations.

Net to Heirs After Annuity Repositioning Strategy

Prepared for Frank Sample

Year	Annuity Value	Gross Annuity Distribution	Net Annuity Distribution	Insurance Outlay	Remaining Annuity Value	Estate Taxes On Annuity At Death	Income Taxes On Annuity At Death	Annuity Value Upon Death	Life Insurance Proceeds	Net Total to Heirs
2007	740,330	88,557	61,990	61,990	651,773	260,709	45,319	345,745	1,000,000	1,345,745
2008	684,361	88,557	61,990	61,990	595,804	238,322	35,245	322,238	1,000,000	1,322,238
2009	625,595	88,557	61,990	61,990	537,037	214,815	24,667	297,556	1,000,000	1,297,556
2010	563,889	88,557	61,990	61,990	475,332	0	22,600	452,733	1,000,000	1,452,733
2011	499,099	88,557	61,990	61,990	410,542	164,217	1,897	244,427	1,000,000	1,244,427
2012	431,069	71,311	61,990	61,990	359,758	143,903	0	215,855	1,000,000	1,215,855
2013	377,746	67,386	61,990	61,990	310,360	124,144	0	186,216	1,000,000	1,186,216
2014	325,878	66,645	61,990	61,990	259,232	103,693	0	155,539	1,000,000	1,155,539
2015	272,194	65,878	61,990	61,990	206,315	82,526	0	123,789	1,000,000	1,123,789
2016	216,631	65,085	61,990	61,990	151,546	60,619	0	90,928	1,000,000	1,090,928
2017	159,124	64,263	61,990	61,990	94,861	37,944	0	56,916	1,000,000	1,056,916
2018	99,604	63,413	61,990	61,990	36,191	14,476	0	21,714	1,000,000	1,021,714
2019	38,000	38,000	37,457	61,990	0	0	0	0	1,000,000	1,000,000
2020	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000
2021	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000
2022	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000
2023	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000
2024	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000
2025	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000
2026	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000

Estate tax rates are based on the input provided by the client and adjusted to reflect the lower of the client rate or the tax rates provided by the Economic Growth and Tax Relief Reconciliation Act of 2001.

Income tax rates reflect the Income in Respect to a Decedent deduction in years where there is an estate tax liability. Any applicable state death taxes or credits have not been included in these calculations.

In calculating the net after tax annuity distribution, it is assumed that no premature distribution penalty applies.

Net to Heirs After Annuity Repositioning Strategy

Prepared for Frank Sample

Year	Annuity Value	Gross Annuity Distribution	Net Annuity Distribution	Insurance Outlay	Remaining Annuity Value	Estate Taxes On Annuity At Death	Income Taxes On Annuity At Death	Annuity Value to Heirs Upon Death	Life Insurance Proceeds	Net Total to Heirs
2027	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000
2028	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000
2029	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000
2030	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000
2031	0	0	0	61,990	0	0	0	0	1,000,000	1,000,000

Estate tax rates are based on the input provided by the client and adjusted to reflect the lower of the client rate or the tax rates provided by the Economic Growth and Tax Relief Reconciliation Act of 2001.

Income tax rates reflect the Income in Respect to a Decedent deduction in years where there is an estate tax liability. Any applicable state death taxes or credits have not been included in these calculations.

In calculating the net after tax annuity distribution, it is assumed that no premature distribution penalty applies.

Comparison of After Tax Proceeds Left to Heirs

Prepared for Frank Sample

Year	Age	Proceeds to Heirs*		Additional Proceeds to Heirs	Percent Gain Over Current Approach
		Using Current Approach	Using Annuity Repositioning Strategy		
2007	75	382,939	1,345,745	962,806	251%
2008	76	398,486	1,322,238	923,752	232%
2009	77	414,810	1,297,556	882,746	213%
2010	78	719,917	1,452,733	732,815	102%
2011	79	449,948	1,244,427	794,480	177%
2012	80	468,845	1,215,855	747,010	159%
2013	81	488,687	1,186,216	697,528	143%
2014	82	509,522	1,155,539	646,017	127%
2015	83	531,398	1,123,789	592,391	111%
2016	84	554,368	1,090,928	536,560	97%
2017	85	578,486	1,056,916	478,430	83%
2018	86	603,811	1,021,714	417,904	69%
2019	87	630,401	1,000,000	369,599	59%
2020	88	658,321	1,000,000	341,679	52%
2021	89	687,637	1,000,000	312,363	45%
2022	90	718,419	1,000,000	281,581	39%
2023	91	750,740	1,000,000	249,260	33%
2024	92	784,677	1,000,000	215,323	27%
2025	93	820,311	1,000,000	179,689	22%
2026	94	857,726	1,000,000	142,274	17%

Estate tax rates are based on the input provided by the client and adjusted to reflect the lower of the client rate or the tax rates provided by the Economic Growth and Tax Relief Reconciliation Act of 2001. Income tax rates reflect the Income in Respect to a Decedent deduction in years where there is an estate tax liability. Any applicable state death taxes or credits have not been included in these calculations.

*See preceding exhibits illustrating current and after repositioning for details upon which these figures are based.

Comparison of After Tax Proceeds Left to Heirs

Prepared for Frank Sample

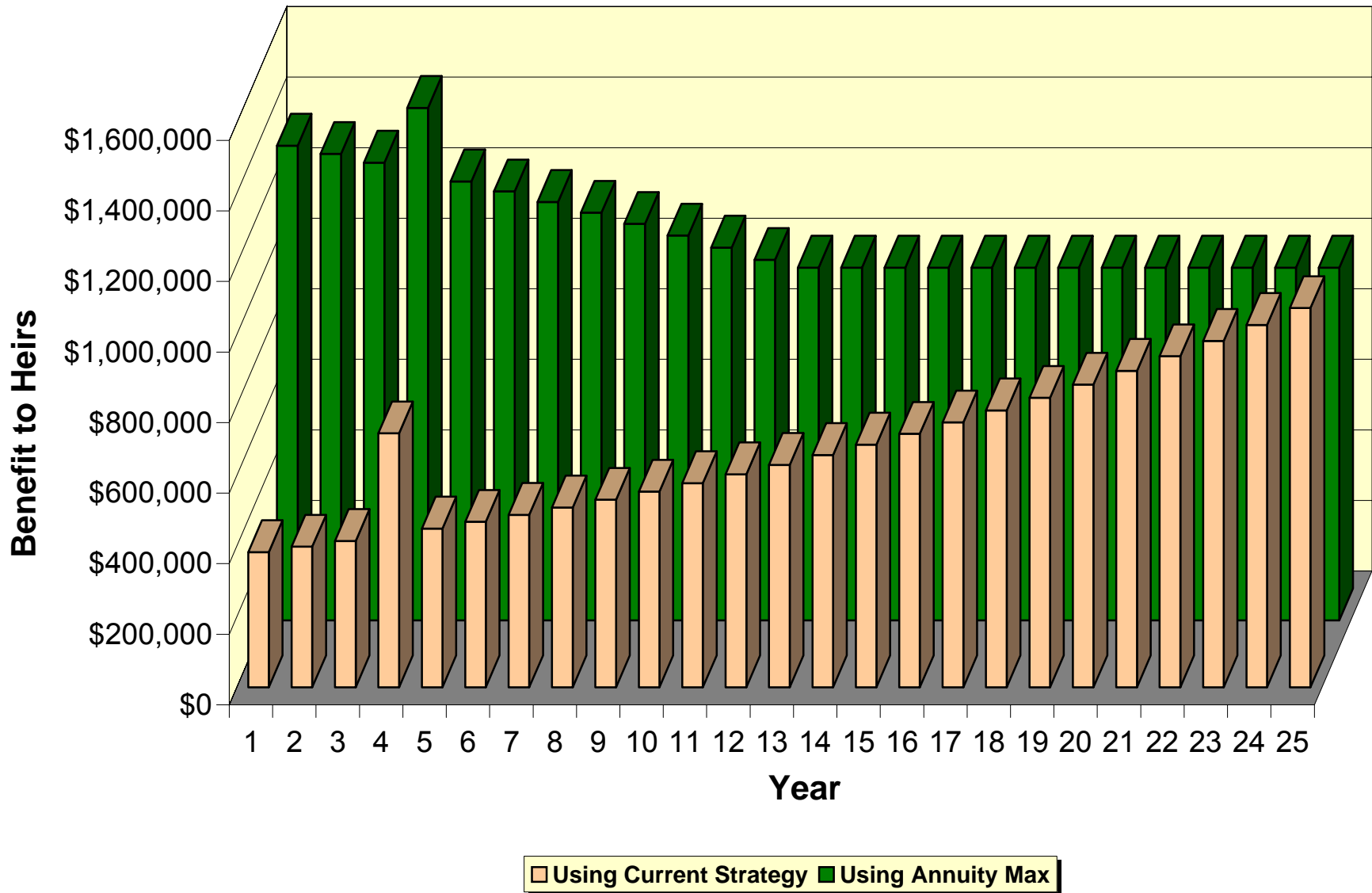
Year	Age	Proceeds to Heirs*		Additional Proceeds to Heirs	Percent Gain Over Current Approach
		Using Current Approach	Using Annuity Repositioning Strategy		
2027	95	897,013	1,000,000	102,987	11%
2028	96	938,263	1,000,000	61,737	7%
2029	97	981,576	1,000,000	18,424	2%
2030	98	1,027,055	1,000,000	-27,055	-3%
2031	99	1,074,808	1,000,000	-74,808	-7%

Estate tax rates are based on the input provided by the client and adjusted to reflect the lower of the client rate or the tax rates provided by the Economic Growth and Tax Relief Reconciliation Act of 2001. Income tax rates reflect the Income in Respect to a Decedent deduction in years where there is an estate tax liability. Any applicable state death taxes or credits have not been included in these calculations.

*See preceding exhibits illustrating current and after repositioning for details upon which these figures are based.

Comparison of After Tax Proceeds Left to Heirs

Prepared for Frank Sample



Assumptions & Proposed Plan

Prepared for Frank Sample

ASSUMPTIONS

CLIENT DATA:

Male Age 75
Client Income Tax Bracket: 30%
Heirs Income Tax Bracket: 30%
Client Estate Tax Bracket: 40%*

CURRENT ANNUITY:

Current Annuity Value: \$740,330
Tax Cost Basis: \$400,000
Assumed Net Annual Annuity Growth Rate: 5.0%**

PROPOSED PLAN

LIFE INSURANCE:

\$1,000,000 Accumulation VUL issued by ABC Insurance Company
The first year life insurance premium is: \$61,990

SYSTEMATIC WITHDRAWALS:

Annual distributions are gifted to heirs or life insurance trust to pay Life Insurance Premiums.
Systematic annual distributions will be taken from the annuity. The first annual withdrawal, net of taxes, is assumed to be \$61,990.

Notes:

- Values from the annuity are used to purchase a life insurance policy owned outside the estate
- All or a portion of the annuity distribution may be subject to income tax, but it is assumed that no premature distribution penalty applies.
- The life insurance values are estimates only based on final pricing and underwriting of the policy. Please see accompanying illustration.

* The estate tax rate used in calculations is capped annually pursuant to EGTRRA 2001.

**This growth rate is purely illustrative and is not a forecast or projection of future results.

Important Notes

Prepared for Frank Sample

- It is assumed that the life insurance policy is purchased outside of your estate or not otherwise subject to estate tax. It is also assumed that no gift tax is incurred. This requires that you do appropriate estate planning in conjunction with adopting this approach.
- Illustrated life expectancy has been calculated using IRS Annuity Table V for single life illustration and IRS Annuity Table VI for joint and survivor illustrations. Based on this calculation death is illustrated to occur during year 13.
- All or a portion of the annuity distributions may be subject to income tax.
- Pursuant to IRS Circular 230, Mercury Financial Group is providing you with the following notification: The information contained in this document is not intended to (and cannot) be used by anyone to avoid IRS penalties. This document supports the promotion and marketing of life insurance products. You should seek advice based on your particular circumstances from an independent tax advisor.
- This analysis provided by Mercury is meant to be utilized by financial advisors and their clients to help assist in comparing various insurance policies. Because insurance policies may contain varying terms, conditions and benefits this analysis is meant to be used only in conjunction with the respective compliance policy illustrations. Over an insured's lifetime, the non-guaranteed elements of a policy are likely to vary from the assumptions shown here.
- Mercury Financial Group does not give tax or legal advice and encourages clients to seek tax & legal counsel on these matters.