

Using life insurance for annuity maximization

Help your clients make the most of an annuity

Even the most well-thought-out financial plans can run into unforeseen problems with taxation that could leave your client's heirs with less than planned. Using annuity funds to buy a needed life insurance policy can help your clients get more value from their annuity, without the limitations of income taxes.¹

Who can benefit?

Many of your clients have used annuities as a savings vehicle as part of their financial plan. Some of your clients may no longer need the money in the annuity for themselves. Instead, they plan to pass the money on to their heirs.

But did you know that the gains on your client's annuity (the portion that exceeds the original premium)² could be taxable income to heirs? In addition, the full value of the annuity is includible in your client's taxable estate, which could result in a diminished inheritance.

To help maximize your client's annuity dollars, one idea is to purchase a life insurance policy with the annuity funds.

Client's objective

In addition to meeting a life insurance need, annuity max sales typically have three objectives:

1. Minimize taxes
2. Maximize the death benefit
3. Retain access to cash value

Why life insurance?

Life insurance provides a generally income tax-free death benefit and can be structured to be excluded from the owner's taxable estate, thereby avoiding any potential estate taxes. Using annuity funds to meet a life insurance need can help maximize the value for your client's heirs.

Funding options

Determining how to purchase the life insurance should be done on a case-by-case basis. Options for purchasing the life insurance include:

1. Single premium:

- If your client needs death benefit protection, consider using the annuity funds that are no longer needed to help purchase a life insurance policy.

2. Spread out premium payments:

- Annuitize or 1035 exchange the annuity into a Single Premium Immediate Annuity (SPIA) to purchase a life insurance policy. Midland National offers an automated system for doing this. Refer to the *SPIA – How it Works* flyer (166MM-6) for complete information.
- Use Required Minimum Distributions (RMDs) from a qualified annuity if those funds are not needed by the client.
- Utilize any 10% penalty-free withdrawals if the Non-Qualified Deferred Annuity contract is in its surrender period.

Each option presents different advantages and disadvantages – depending on your client's goals.

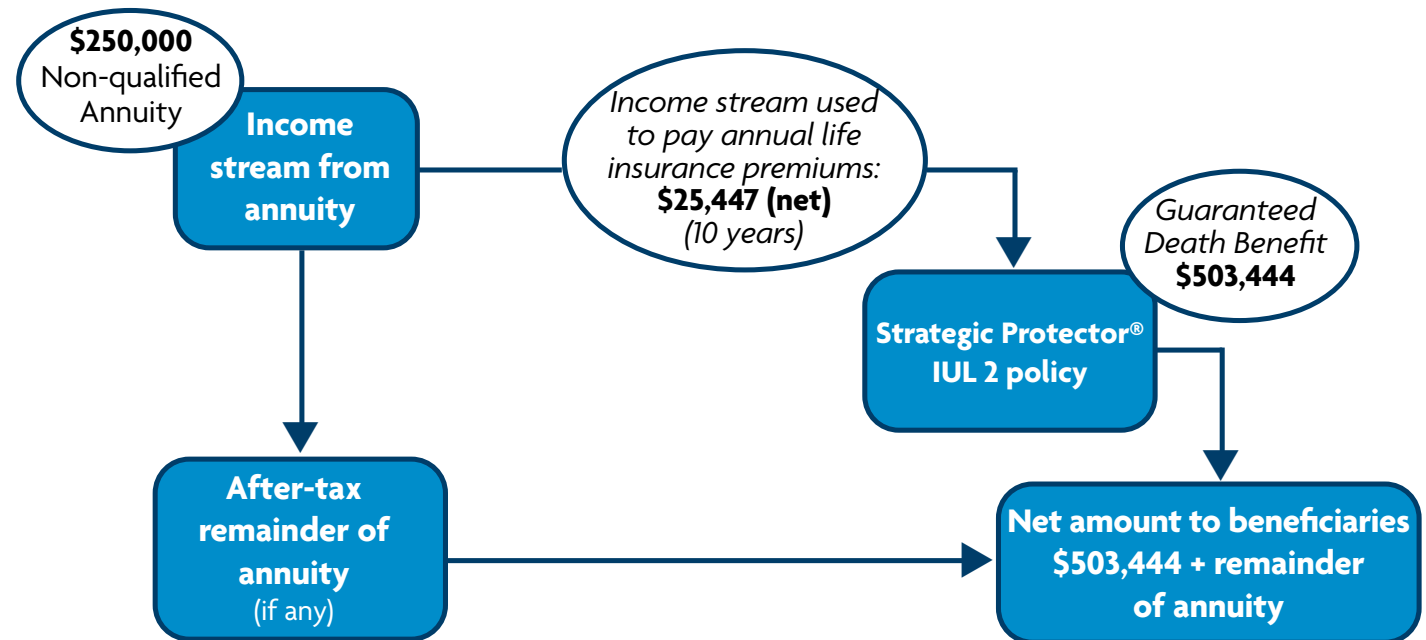
Life insurance policy selection

Midland National offers a comprehensive portfolio of life insurance products to meet many client objectives. One common objective and product for the annuity max sale is:

- **Maximize the death benefit with Strategic Protector® IUL 2** – Provides a guaranteed death benefit³ as well as living benefits.⁴ Maximize these benefits when your client doesn't expect they will need money for other reasons.

Hypothetical case study

Your client is a 62-year-old male preparing for retirement. He has \$250,000 (\$225,000 cost basis) in a non-qualified annuity that he does not need for retirement funding but plans to leave for his children when he is gone. As noted above, any gains in the contract can be taxable to his heirs and the full value of the annuity may be subject to estate taxes. Another option would be to annuitize with a 10-year period certain payout and purchase a Strategic Protector® IUL 2 at Standard Non-Tobacco with the funds – increasing the amount left to his heirs to \$503,444 (plus, the death benefit is provided generally income-tax free).



Source: Midland National Exact Illustrations, Male, Standard Non-Tobacco, Solve for guaranteed death benefit to 110, May 2025.

Income stream used to pay annual life insurance premiums (Net assuming 25% Tax Bracket)

The information presented is hypothetical and not intended to project or predict investment results.

Removing funds from an annuity may result in surrender charges and/or income taxes.

Agents offering, marketing, or selling accelerated death benefits for chronic illness in California must be able to describe the differences between benefits provided under an accelerated death benefit for chronic illness and benefits provided under long-term care insurance to clients. You must provide clients with the ADBE Consumer Brochure for California that includes this comparison. Comparison is for solicitation purpose only, not for conversions.

1. This material does not constitute tax, legal or accounting advice, and neither Midland National nor any of its agents or employees give such advice. It is not intended and cannot be used for the purpose of avoiding any tax laws or IRS penalties. Any of your clients interested in these transactions or topics should seek advice from his or her own attorney, tax advisor and/or accountant based on his or her own particular circumstances and before entering into or paying additional premiums with respect to such arrangements. Annuities may be subject to taxation during the income or withdrawal phase.

2. If the original premium was pre-tax, then the full value of the annuity will be taxable income to heirs.

3. Guaranteed death benefit is subject to premium payment requirements.

4. Accelerated Death Benefits are subject to eligibility requirements. The death benefit will be reduced by the amount of the death benefit accelerated. Since benefits are paid prior to death, a discount will be applied to the death benefit accelerated. As a result, the actual amount received will be less than the amount of the death benefit accelerated.

As independent financial professionals, it is up to you to choose whether the sales concept contained in this flyer might be appropriate for use with your particular sales strategy and clients. Please note that Midland National does not require you to use this sales concept; it is a resource that can be used at your option for your own individualized sales presentations if appropriate for the particular client and circumstances.

Essential Guaranteed IUL 5 (policy form series L146, or state variation) including all applicable endorsements and riders, are issued by Midland National Life Insurance Company, Administrative Office, One Sammons Plaza Sioux Falls, SD 57193. Products, features, endorsements, riders or issue ages may not be available in all jurisdictions.

Strategic Protector® IUL 2 is issued on the state version of policy form P100/ICC22P100 including all applicable endorsements and riders, by Midland National® Life Insurance Company, West Des Moines, IA. Products, features, riders, endorsements, or issues ages may not be available in all jurisdictions. Limitations or restrictions may apply.

Distributions, outside of Required Minimum Distributions (RMDs), from a qualified plan or individual retirement account (IRA) cannot be used as life insurance premium. Annuity withdrawals taken prior to age 59 1/2 may be subject to IRS penalties.

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