The Impact of a Tax-Free Death Benefit

BKAPWC
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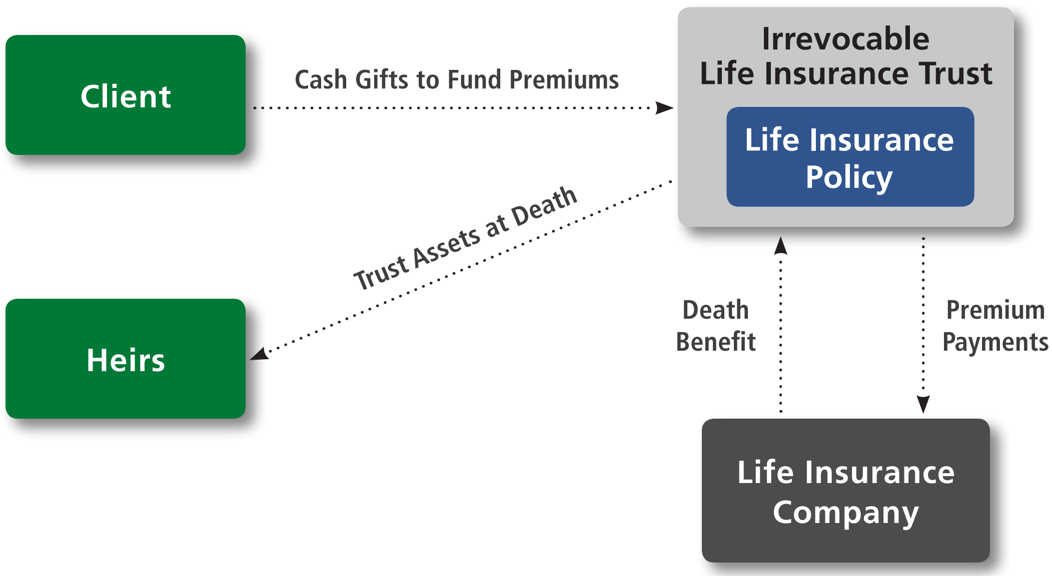
# The Power of Life Insurance

## What is the Power of Life Insurance?

Life insurance death proceeds are generally received on an **income tax-free basis.** If the life insurance policy is owned by an Irrevocable Life Insurance Trust, they can also be generally received **estate tax-free.**

To **match** these results would **require higher rates of return** and possibly **greater risk** in an investment subject to income taxes or estate taxes.

## How Does it Work?

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bkafinancial.com ◆ 244 West Water St., Suite 200, Elmira, NY 14901 ◆ Phone (607) 732-3050 ◆ Fax (607) 732-3904

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## Mr. Valued Client & Mrs. Valued Client

Male 60, Preferred Nonsmoker, Female, Age 60, Preferred Nonsmoker • Guaranteed SUL • 40 Premium Payment(s) • State of NC • Death Benefit Guaranteed to Age 120 • Guaranteed crediting rate of 2.0%.

**You pay $9,947** — **Annual Premium**

Annual Premium Payments Made Over 40 Year(s)

**Heirs get $1,000,000** — **Death Benefit**

**Life Insurance Internal Rate of Return (IRR) at Death**

| – 5 Years Age(s) 85 \| 85 | Life Expectancy Age(s) 90 \| 90 | + 5 Years Age(s) 95 \| 95 |
|---|---|---|
| 9.54% | 6.97% | 5.27% |

**Subject to: 20% Capital Gains Tax**

| – 5 Years Age(s) 85 \| 85 | Life Expectancy Age(s) 90 \| 90 | + 5 Years Age(s) 95 \| 95 |
|---|---|---|
| 11.92% | 8.71% | 6.59% |

**Subject to: 40% Estate Tax**

| – 5 Years Age(s) 85 \| 85 | Life Expectancy Age(s) 90 \| 90 | + 5 Years Age(s) 95 \| 95 |
|---|---|---|
| 15.90% | 11.62% | 8.78% |

**Calculating the "Taxable Equivalent Return"**

What gross rate of return in an account subject to taxes would be needed to match the rate of return of the life insurance?

**If the account was subject to both income and estate taxes then the return it needs to match the life insurance IRR would be even higher then those shown above.**

## That's the Power of Life Insurance

Taxable equivalent return calculated as the insurance IRR at death divided by 1 minus the tax rate.
The tax rates illustrated are purely hypothetical and for illustrative purposes only. The actual tax rate may be different.

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