BISA Bank Insurance & Securities Association

Planning Strategies for Divorced, Widowed, and Blended Families

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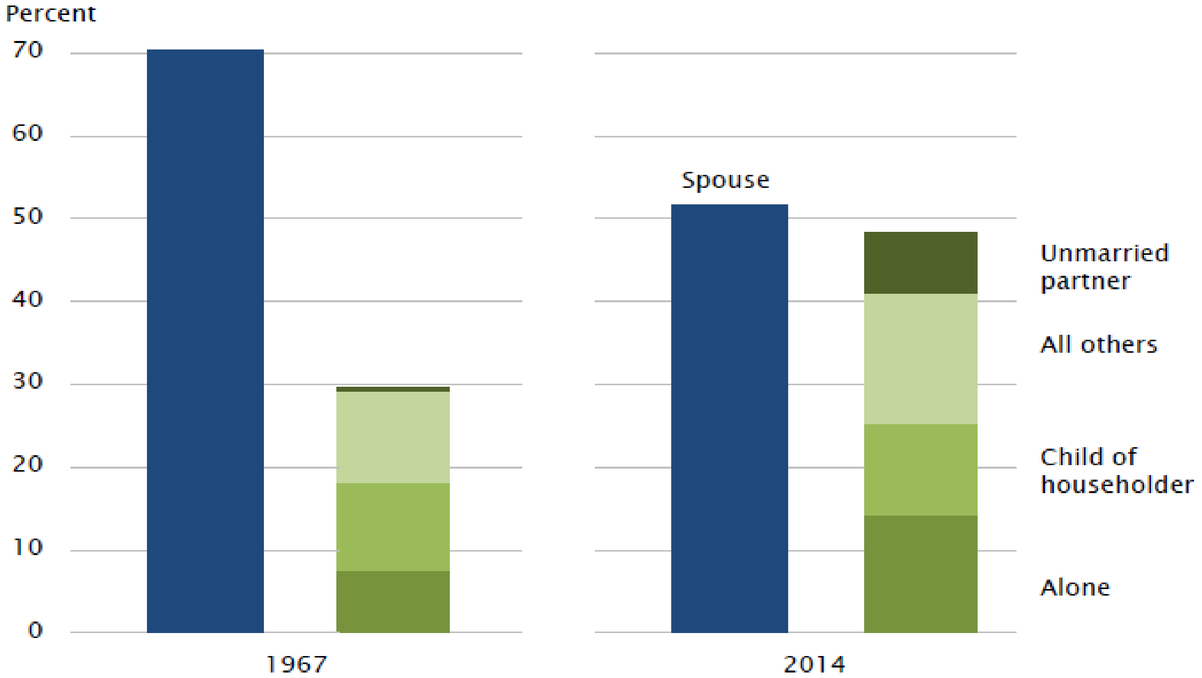
Growing Complexity
Almost half of adults today do not live with a spouse

Family Dynamics are Changing



Source: US Census Bureau; Current Population Survey, Annual Social and Economic Supplement, 1967-2014

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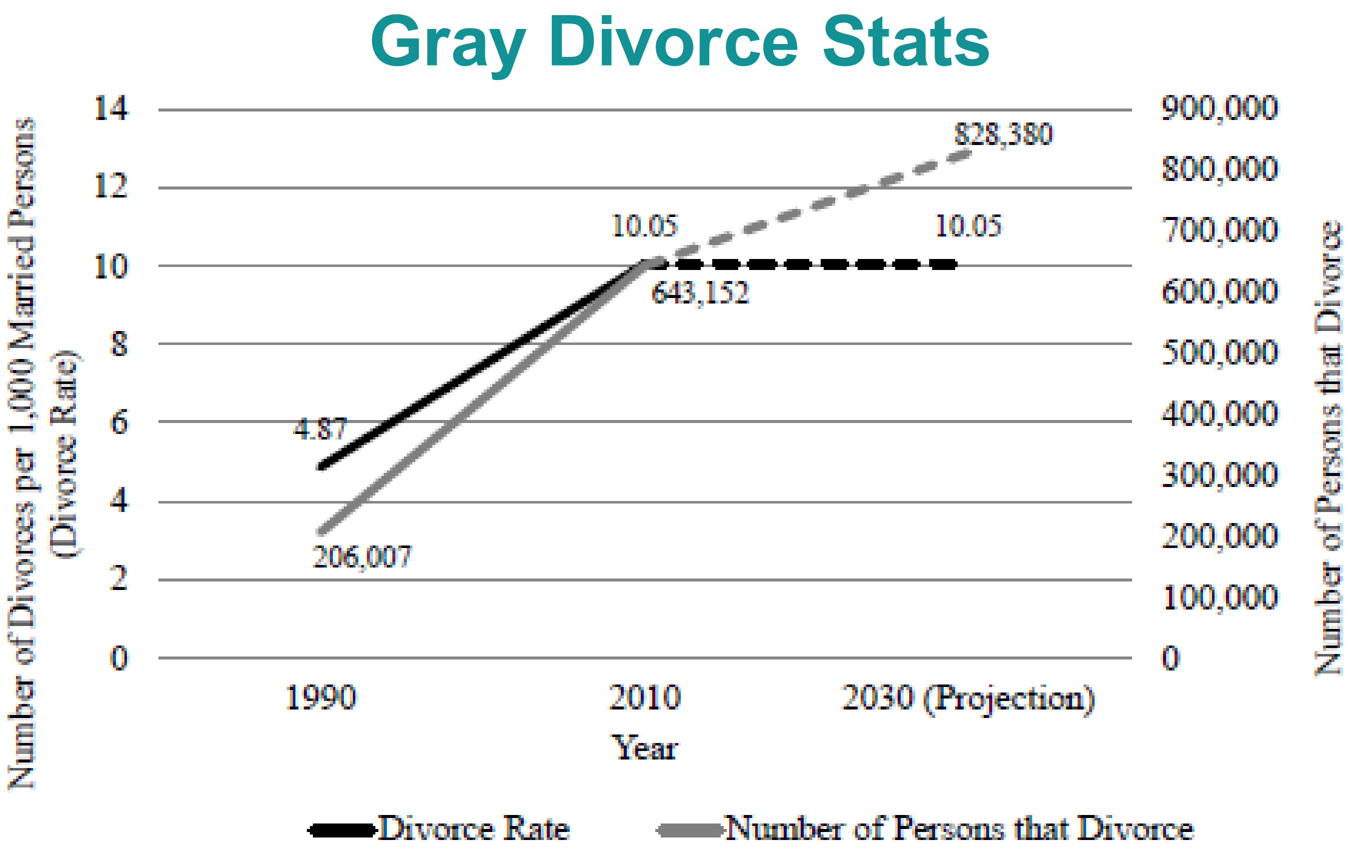
Four-in-Ten New Marriages Involve Remarriage
% of new marriages in 2013

Family Dynamics are Changing

Please note that "New marriages are marriages that began in the past 12 months. A first marriage is one in which neither spouse has been previously married. A remarriage includes at least one spouse who has been married before. Based on couples, not individuals, where at least one spouse is age 18 or older.

Source: Pew Research Center analysis of 2013 American Community Survey (1% IPUMS)
Source: The Gray Divorce Revolution: Rising Divorce among Middle aged and Older Adults, 1990-2010 by Susan Brown.
https://www.bgsu.edu/content/dam/BGSU/college-of-arts-and-sciences/NCFMR/documents/Lin/The-Gray-Divorce.pdf

Divorce Rate and Number of Persons that Experience Divorce
Ages 50+



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Agenda

- Review Planning Situations for:
  - Newly Divorced Individuals
  - Widowed Individuals
  - Non-married and Same Sex couples
  - Blended Families

Planning for the Non-Traditional Family

Newly Divorced Households

Newly Divorced Households

- Estate Plans
  - Will/Trust
  - Power of Attorney & health care directive
  - Guardianship for minor children
  - Beneficiaries

- Kennedy v. Dupont - Supreme Court case ruling on beneficiary designations
  - Missed opportunity to change beneficiaries upon divorce
  - The bottom line: for assets passing to a designated beneficiary, periodic review and updates can avert future troubles

Newly Divorced Households

- Income Taxes
  - Transition of taxation from Married to Single
  - File as single filer vs married filer vs head of household

- Alimony & Child Support
  - Alimony paid is generally tax deductible by the payer and taxed as income to the recipient
  - Child Support is not deductible by the payer and not taxable by the payee
  - Child credit, dependent deduction – who gets it?

Newly Divorced Households

- Transitioning assets to single ownership upon divorce
  - QDRO – Qualified Domestic Relations Order
    - Applies to Qualified Plans such as 403b, 401k etc, IRAs of all types
  - Divorce Decree & Property Settlement
    - Applies to Non Qualified (after tax) annuities

- Annuities and Divorce
  - Not all insurance companies treat distributions pursuant to divorce in the same manner
  - Distributions may be treated as a surrender and subject to penalty
  - Optional riders and benefits that may have been purchased may be reduced pro-rata or even eliminated
  - New contracts established with proceeds from a QDRO or property settlement generally are eligible for newer riders that may not have as robust of a benefit

Newly Divorced Households

- Former Spouses
  - If age 62 or older, a divorcee may qualify for benefits on a former spouse's record if:
    - The ex spouse is eligible for benefits (age 62 or older)
    - Must have been divorced for at least two (2) years;
    - The marriage lasted at least 10 years; and
    - The Divorcee is not currently married; and
    - May not be eligible for equal or greater benefits on own record or another's record
- Benefits are subject to the retirement earnings test limits

- A surviving divorced spouse could get the same benefits as a widow or widower (survivors benefits) provided that the marriage lasted 10 years or more.

Planning for the Non-Traditional Family

Newly Widowed Households

Newly Widowed Households

- Widows & Widowers
  - Qualified Widow/er – allowed to file as Married for up to 2 years after death of spouse
  - Sale of primary residence
    - 500k of gain exempted for married filers
    - 250k of gain exempted for single filers

Newly Widowed Households

- Spousal continuation or rollover
  - Assume as one's own
- Spousal Stretch
  - Distributions due to death
  - No RMD's until deceased would have turned 70 ½
- Roth Conversion Opportunity
  - Conversion Opportunity
  - Utilize status as Married Filing Jointly vs Single
  - e.g. 28% bracket Single vs Married Filing Jointly

Single		Married Filing Jointly	
Over	But Under	Over	But Under
$91,150	$190,150	$151,900	$231,450

Newly Widowed Households

- Survivor Benefits
  - A surviving spouse will receive the higher of either their own benefit or their deceased spouse's benefit (including Delayed Retirement Credits & Cost of Living Adjustments)
    - Widow(er) must have been married to the deceased for at least 9 months
    - If widow(er) remarries prior to age 60 (50 if disabled), he/she forfeits survivor benefits;.
    - Widow(er) at any age if h/she takes care of deceased's child who's receiving SS benefits, and who is younger than age 16 or disabled;
    - Divorced widow(er)s

- Widow(er) has choice of benefits (dual entitlement) not subject to the new "deemed filing rule"

- One Time Lump Sum Death Benefit $255 paid to spouse or child

Family Benefits

Newly Widowed Households

- Who can receive survivor/family benefits:
  - Unmarried children, who are younger than age 18 (or up to age 19 if they're attending elementary or secondary school fulltime); or disabled child at any age if they were disabled prior to age 22 and remain disabled; and - 75% of deceased's PIA
  - Dependent parent(s) (age 62) - One surviving parent— 82.5% of deceased's PIA; two surviving parents—75% to each parent
  - Family maximum rules - 150% to 180% of deceased's PIA.

Case Study

Newly Widowed Households

- Phil (50) is a widower and has 2 children 16 & 14 at home
- Phil's wife Kathy passed away recently at age 48
- Phil is the beneficiary of:
  - $250K 403(b)
  - $100K IRA
  - $200K Life Insurance
- Family benefits from Social Security will be $500 per month per child until age 18 for both children

This is a hypothetical case study and actual results may vary.

Case Study

Newly Widowed Households

- Opportunities
  - Inherited Retirement Accounts
    - Allowed to treat as his own, but if he does, will be exposed to tax penalties for withdrawals prior to age 59 ½ unless he qualifies for an exception
    - Allowed to "stretch" but unlike a non-spouse, he is not required to take RMD's until Kathy would have turned 70 ½.

Can treat the Stretch IRA as his own at any time

Case Study

Newly Widowed Households

- A potential solution for Phil
  - Phil takes Kathy's IRA and establishes it as a "Spousal Stretch" enabling him to take periodic taxable distributions without incurring a 10% penalty
    - This is treated as a distribution with an exception due to death
  - Phil takes Kathy's 403b via a spousal rollover into his own IRA.
    - He then takes $50K this year to fill up to the top of his marginal income tax bracket and converts to a Roth IRA.
    - He does this again the following year while he is still eligible to utilize his status as a qualifying widower to file as Married Filing Jointly.
    - Phil chooses to invest a portion of his IRA & Roth IRA in a Variable Annuity with a Guaranteed Lifetime Income Benefit

Income Strategy-GLB Riders

- GLB's were created back in 1996 - they implicitly create a "safety net" by creating:
  - Portfolio Insurance: Downside market protection which is especially valuable early in retirement.
  - Longevity insurance: Generates and guarantees lifetime income.
- Riders to the annuity contract (costs vary from 20 – 190 basis points)*
- One of the most useful income classes in our toolbox.
  - Beneficial to the retiree in all market conditions
- GMIB shifts the longevity and market risks to the Insurance company

Source: *Insured Retirement Institute (IRI) 2013 Fact Book

Importance of a Safety Net

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Guaranteed Minimum Income Benefits

- Variable Annuities with optional Guaranteed Minimum Income Benefits
  - An annuity feature that can provide the annuity owner with predictable future income regardless of investment performance.
  - Generally 4-8% of the benefit base. (The benefit base generally starts as the initial account value. As the contract allows, if the Benefit Base can roll up the allotted percentage (4-8%) on each contract anniversary date is elected by the contract owner.)**

*Guaranteed living income benefits are available for additional fees and charges. Excess withdrawals may affect the guaranteed living income benefits. Please see the prospectus for more detailed information.

**Source: NAVA Fact Book 2008, LIMRA International

Ways to Manage Risk with a GMIB

GMIB

- NO Age Bands
  - 3% or 4% up to 8% Income Any Age Single/Joint
- Same Price Single/Joint
- Rollup Compounding & Market Stack to 95 regardless of withdrawals
- Start and Stop Income
- More Ways to Increase Income
  - Market Reset
  - Interest Rate Rollup
  - Taking Less and Banking Difference
- Multiple DB Options
- Spousal Continuation

Planning for the Non-Traditional Family

Non-Married Families

Non-Married Families

Estate Planning	■ Lack of legal protection afforded to spouses ■ Beneficiary designation to avoid Intestacy laws will disinherit the partner ■ Not eligible for unlimited marital deduction - Annual gifting limit
Income Tax Planning	■ Income taxes – filed as Single not Married ■ Tax Brackets are more narrow for single filers than married filers ■ Results in lower income tax bills for married couples
Retirement Planning	■ Cannot contribute for spousal IRAs ■ Not able to treat inherited IRAs & Qualified Plans as own, must utilize a Stretch Strategy ■ Must claim own Social Security Benefit - Not eligible for Spousal or Survivors benefits

A Note About Same Sex Marriage

- Supreme Court decision brings permanence to same sex marriage under the Due Process Clause and the Equal Protection Clause of the 14th Amendment to the United States Constitution (Obergefell v Hodges)

- For many couples, this brings simplification to their relationship since they are now treated as a married opposite sex couple would have been.
  - Social Security Benefits now treated as married couple's choice of benefits:
    - Spouse's own retirement benefit (PIA)
    - Spousal benefit (if eligible)
    - Survivor benefits
  - But obstacles still remain:
    - Social acceptance among family
    - Inheritance Planning
    - Revising Plans that were made assuming non-recognized marriage

Planning for the Non-Traditional Family

Blended Families

Blended Families

- Pre-Nuptial agreements as a planning tool
- Proper Beneficiary Designation
- Titling of assets/real property
- Using Trusts for proper asset management and distribution
  - Revocable Trusts
  - Irrevocable Trusts
    - Irrevocable Life Insurance Trusts
    - Qualified Terminal Interest Property (QTIP) Trusts
    - Disclaimer Trusts

Blended Families

- Alimony payments to/from former spouse
- Child support payments to/from former spouse
- Dependent exemptions
  - The custodial parent is ordinarily entitled to claim the exemption, regardless of who pays child support
- Child (and additional child) tax credit:
  - If qualified, can claim for a child that is your dependent

Blended Families

- Retirement benefits treated as spousal benefits
  - Remarriage affects Social Security from an ex or deceased spouse
  - 10 Year+ age difference in spouses changes RMD calculation

- Assets consumed by marriage may affect inheritance to children from previous marriages
  - Assets used or accumulated during marriage can reduce the inheritance left to children from a first marriage.
  - If the new spouse is younger can delay the timing of the inheritance

- Using Trusts to minimize the complexities
  - Trust as a Conduit for an IRA

Case Study

Blended Families

- Bill and Joanne, recently married

- Bill, 67 was a widower
  - Children aged 45, 43
  - 4 Grandchildren aged 12-18
  - Bill's net worth approximately $3.5 million
  - Includes $1,000,000 B Trust, $1,000,000 QTIP

- Joanne, 53 was a divorcee
  - Children aged 20, 17
  - Joanne's net worth approximately $750K

This is a hypothetical case study and actual results may vary.

Case Study

Blended Families

- Client objectives
  - Bill would like to preserve inheritance for his children & grandchildren due to the assets he will contribute to the marriage
  - Bill would like to provide for Joanne & her children should he pass away pre-maturely

- Issues to Consider
  - Age similarity between Joanne (53) and Bill's children (45,43)
  - Disparity in wealth brought to the marriage

Case Study

Blended Families

- Opportunities
  - Create an Irrevocable Life Insurance Trust and purchase a life insurance policy on Bill's life
    - Benefits will be used to replace assets contributed to marital assets ($1.5 million)

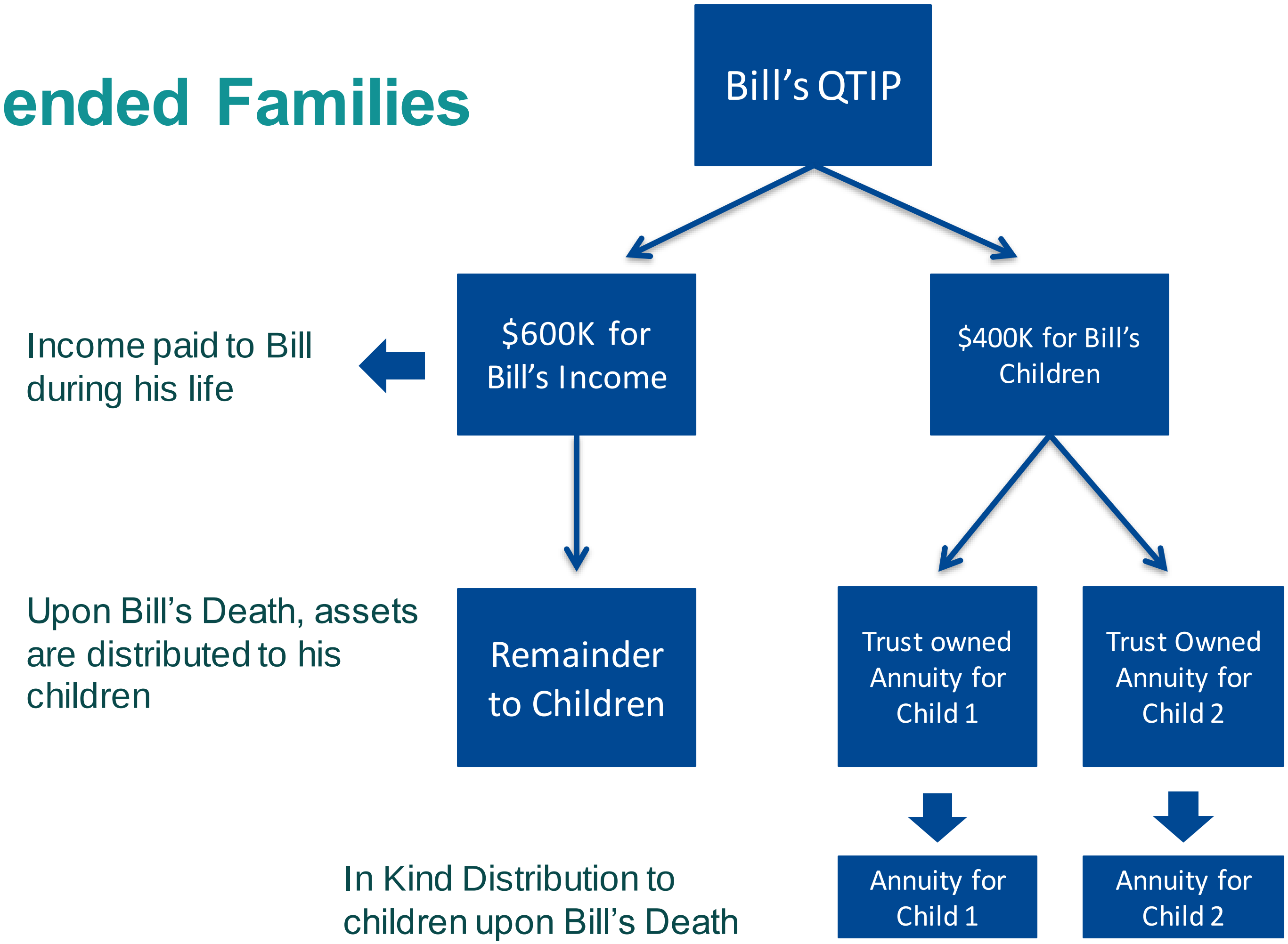
- QTIP Planning
  - Earmark assets held by the QTIP trust to preserve for his children and assets for his consumption
    - $600K invested to produce income annually that is distributed to Bill
    - $400K invested to preserve and grow wealth for his children

Case Study

Blended Families

- Using Annuities in a QTIP Trust
  - Trusts acting as agents for individuals allowed tax deferral under exception to 72(u)
  - In Kind Distribution – upon termination of the trust, the trustee makes distribution of the annuities purchased for each of the children
  - Ownership is changed from trust to annuitant and each owner names new beneficiaries
  - Benefits and growth accrued pass and are not taxable until further taxable distributions are taken

Blended Families



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Tax Deferral Strategies for Irrevocable Trusts

- Variable Annuities with optional Living and Death Benefit Riders
  - Tax deferred investments with option to fund living and death benefits in the future

- Structured Annuity Product Strategies
  - Tax Deferred Protected Equity investment strategy with no explicit fee and access to multiple indices with down side protection.

- Investment Only Variable Annuity
  - Tax deferred investment strategies with 120+ investment options including alternatives with a tax efficient distribution strategy.

Summary

- Review Planning Situations for:
  - Newly Divorced Individuals
  - Widowed Individuals
  - Non-married and Same Sex couples
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How AXA Can Help

- Three distinct Variable Annuity contracts with multiple share classes for retirement income, investment and savings growth
- Wholesaler Support
- Advanced Markets expertise
- Client Presentation – Family Love Letter
- Contact AXA at (888) 517-9900 or visit AXAdistributors.com

Important Information

A deferred variable annuity is a long-term financial product designed for retirement purposes. In essence an annuity is a contractual agreement in which payment(s) are made to an insurance company, which agrees to pay out an income or a lump sum amount at a later date. Typically, variable annuities have mortality and expense charges, account fees, investment management fees, administrative fees and charges for special contract features. In addition, annuity contracts have exclusions and limitations. Early withdrawals may be subject to surrender charges.

All guarantees including optional benefits are based on the claims-paying ability of the issuing insurance company and do not apply to the subaccount investment options.

Variable annuities are sold by prospectus only, which contains complete information on charges, investment risks, and expenses of the investment company. These charges should be considered carefully before investing. The prospectus should be read carefully before investing or sending money. Investors should contact their financial professional for a copy of the prospectus.

Amounts in the annuity's variable investment options are subject to fluctuation in value and market risk, including loss of principal. Withdrawals may be taxable as ordinary income and, if taken prior to age 59½, an additional 10% federal income tax penalty may apply. Withdrawals reduce annuity contract benefits and values.

If you are purchasing an annuity contract as an Individual Retirement Annuity (IRA) or Tax Sheltered Annuity (TSA), or to fund an employer retirement plan (QP or Qualified Plan), you should be aware that such annuities do not provide tax deferral benefits beyond those already provided by the Internal Revenue Code. Before purchasing one of these annuities, you should consider whether its features and benefits beyond tax deferral meet your needs and goals. You may also want to consider the relative features, benefits and costs of these annuities with any other investment that you may use in connection with your retirement plan or arrangement.

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