

Preserving a Life Insurance Policy Tax Loss

Customer Profile

69 Yr Old Female - Create Income for life
Use Life Insurance Policy Cash Value to Supplement Retirement Income
Life insurance cost basis is \$100K, but cash value only \$3K

Challenge

Client owned a life insurance policy into which she had paid \$100K in premiums, with a worth of only \$3K. It was within two months of lapsing, and she no longer needed coverage. She thought to surrender the policy and use another \$100K she had in the bank to buy a SPIA. She felt there was no need for a 1035 exchange because the policy had no gain to preserve.

Solution

Preserve Life Insurance Tax Loss
Exchange Life Policy for a SPIA; Add \$100K in Other Funds
Increase Cost Basis by \$97K (Initial Premium: \$103K; Basis \$200K)

RESULT

Exclusion Ratio of 100%: You've Created Tax-Free Income



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