

Repurposing an old policy for immediate income

The cost basis advantage of a 1035 exchange



WHAT'S A 1035 EXCHANGE?

A 1035 exchange is part of the tax code that allows you, as a policyholder, to transfer funds from an insurance policy to an annuity, without having to pay income tax.



WHAT IS COST BASIS?

Cost basis is generally the total amount you've paid into an insurance policy.

If you're looking to supplement your income and you have a life insurance policy that no longer meets your needs, consider a tax-free 1035 exchange to a single premium immediate annuity.

Meet Linda and Mark, age 70



Linda and Mark are recently retired. Decades ago, they purchased a life insurance policy to provide security for their young family. They've paid \$100,000 in premiums over the years, and it has a cash value of \$10,000. Now that their children are grown and financially secure, they feel the policy no longer meets their needs. They consider canceling their policy, but they'd lose their cost basis of \$100,000.

The solution

Their financial professional recommends they transfer the policy and purchase *Lincoln Insured Income*SM Immediate Annuity because it's a simple solution that creates a predictable stream of income, guaranteed for life. By doing a 1035 exchange, they're able to:

- Transfer their cash value of \$10,000
- Carry over the value of premiums paid on their old life insurance policy since the cost basis will be transferred
- Repurpose their old policy for immediate income

Linda and Mark also decide to add \$100,000 from their savings to boost the income they'll get.

How the strategy works

Linda and Mark's life insurance policy	1035 exchange	Add money from savings account	Purchase <i>Lincoln Insured Income</i> SM Immediate Annuity
\$10,000 (cash value)	▶ Transfer cash value without tax implications	▶ \$100,000 (cash)	▶ \$110,000 (total premium)
\$100,000 (cost basis)	▶ Transfer cost basis without tax implications	▶ \$100,000 (cost basis)	▶ \$200,000 (cost basis)

*Certain variables, such as the amount of cost basis, the age of the client, and the duration of the income stream, will impact how long the payments remain a tax-free recovery of basis. This strategy may not be suitable for all situations.

The outcome

With the annuity, Linda and Mark have a number of income options to choose from. They select joint life with cash refund so the income will be guaranteed for both of their lifetimes. Based on their income factors and their total cost basis, their payments are **100% tax-free!*** And, they have the added comfort of knowing that any remaining money will be passed on to their loved ones as a legacy.

Insurance products issued by:
 The Lincoln National Life Insurance Company
 Lincoln Life & Annuity Company of New York
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Ask your financial professional about this strategy for immediate income or other options for retirement income in the future.

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A fixed annuity is intended for retirement or other long-term needs. It is intended for a person who has sufficient cash or other liquid assets for living expenses and other unexpected emergencies, such as medical expenses.

*Lincoln Insured Income*SM Immediate Annuity single premium immediate annuity (contract form ICC16-621 and state variations) is issued by The Lincoln National Life Insurance Company, Fort Wayne, IN, and distributed by Lincoln Financial Distributors, Inc., a broker-dealer. **The Lincoln National Life Insurance Company does not solicit business in the state of New York, nor is it authorized to do so. Contractual obligations are subject to the claims-paying ability of The Lincoln National Life Insurance Company.**

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The exact terms of the annuity are contained in the contracts and any attached riders, endorsements and amendments, which will control the issuing company's contractual obligations. For more information about the annuity, please also read the Disclosure Statement, or contact your representative.

Income taxes are due upon withdrawal and if withdrawn before age 59½, an additional 10% federal tax may apply.

There is no additional tax benefit for contracts purchased in an IRA or other tax-qualified plan, since these are already afforded tax-deferred status.

Product and features are subject to state availability. Limitations and exclusions may apply.

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Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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