

# 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.

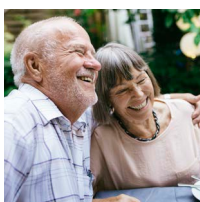


### WHAT IS COST BASIS?

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*<sup>SM</sup> Immediate Annuity because it's a simple solution that creates a predictable stream of income, with various payment options, including some 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> <sup>SM</sup> Immediate Annuity
\$10,000 (cash value)	Transfer cash value without tax implications	\$100,000 (cash)	<b>\$110,000 (total premium)</b>
\$100,000 (cost basis)	Transfer cost basis without tax implications	\$100,000 (additional cost basis)	<b>\$200,000 (cost basis)</b>

<sup>1</sup>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!**<sup>1</sup> And, they have the added comfort of knowing that any remaining money will be passed on to their loved ones as a legacy.

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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.

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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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