



EQUITABLE

# How to plan for the Great Wealth Transfer



**“Father time always wins.  
But he can be fickle.”**

— Warren Buffett

# Seizing Opportunities in the Wealth Transfer

By 2030, **trillions** are expected to flow to today's pre-retirees, Gen Xers and Millennials.<sup>1</sup>

This wealth transfer will also benefit surviving spouses, predominantly pre-retiree women.

**70%** of widowed women switch their financial advisor within a year of their spouse's death.<sup>2</sup>

This presents an enormous opportunity for financial professionals to **build, grow and strengthen** their practices by understanding these trends.

<sup>1</sup> Eisen, Ben and Anne Tergesen, "Older Americans Stockpiled a Record \$35 Trillion. The Time Has Come to Give It Away," The Wall Street Journal, July 2, 2021.

<sup>2</sup> Alliance for Lifetime Income: State of Women Study 2022



# Survey insights on Wealth Transfer beneficiaries

Equitable's survey of 500 retail investors from  
WSJ Intelligence reveals key insights.

- **Demographics:** Evenly split among pre-retirees, Gen X, and Millennials; 60% are women.
- **Income and Net Worth:** 65% earn over \$150,000 annually; 45% reporting household net worth of more than \$1 million.
- **Need for Financial Professionals:** Investors intend to use an FA to help them as they manage their wealth.

**EQUITABLE** **WSJ INTELLIGENCE**

*How to Plan for*  
**THE GREAT WEALTH TRANSFER**

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# The Great Wealth Transfer — key findings

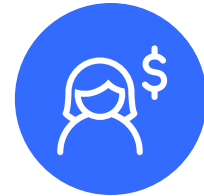


# Key findings



**Millennials will be among the biggest likely beneficiaries of the Great Wealth Transfer.**

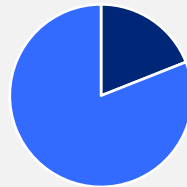
With 57% of respondents expecting to inherit \$1 million or more and 26% expecting to inherit \$3 million or more.



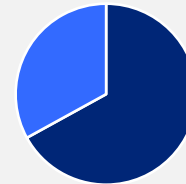
**Women are expected to control much of what will be transferred.**

Currently, 54% of women surveyed use FAs to manage their investments. They also overwhelmingly want to be heard.

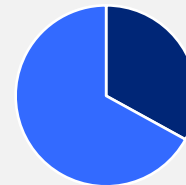
## Opportunities for Financial Professionals



**81% of respondents plan to use a financial advisor for managing new wealth.**



**Only 33% plan to keep working with the same advisor they have now**



**Over 67% of surveyed individuals have a written financial plan for long-term investing, yet only a third collaborated with a financial advisor.**

Source: WSJ Intelligence 2024 Equitable Thought Leadership Study. Base: Total respondents, n=500. Q. Now, thinking about your attitudes in regard to financial advisors, how much do you agree or disagree with the following statements?

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## Understanding the beneficiaries

# Most common primary goals



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**Financial independence**



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**Control of their financial future**



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**Preparing for unforeseen expenses**



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**Compounding returns**



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**Preserving purchase power against inflation**

# Navigating Investment Decisions

While many investors feel confident, they often react impulsively to market changes, which can hinder their long-term goals.

**75%** Millennials reported frequently changing their investments based on new information or changes in the market

**60%** of investors struggle with asset selection.

**81%** of respondents intend to use an FA to manage their new wealth



Source: WSJ Intelligence 2024 Equitable Thought Leadership Study. Base: Total respondents, n=500. Q. Now, thinking about your attitudes in regard to financial advisors, how much do you agree or disagree with the following statements?



# What is wanted from a Financial Professional



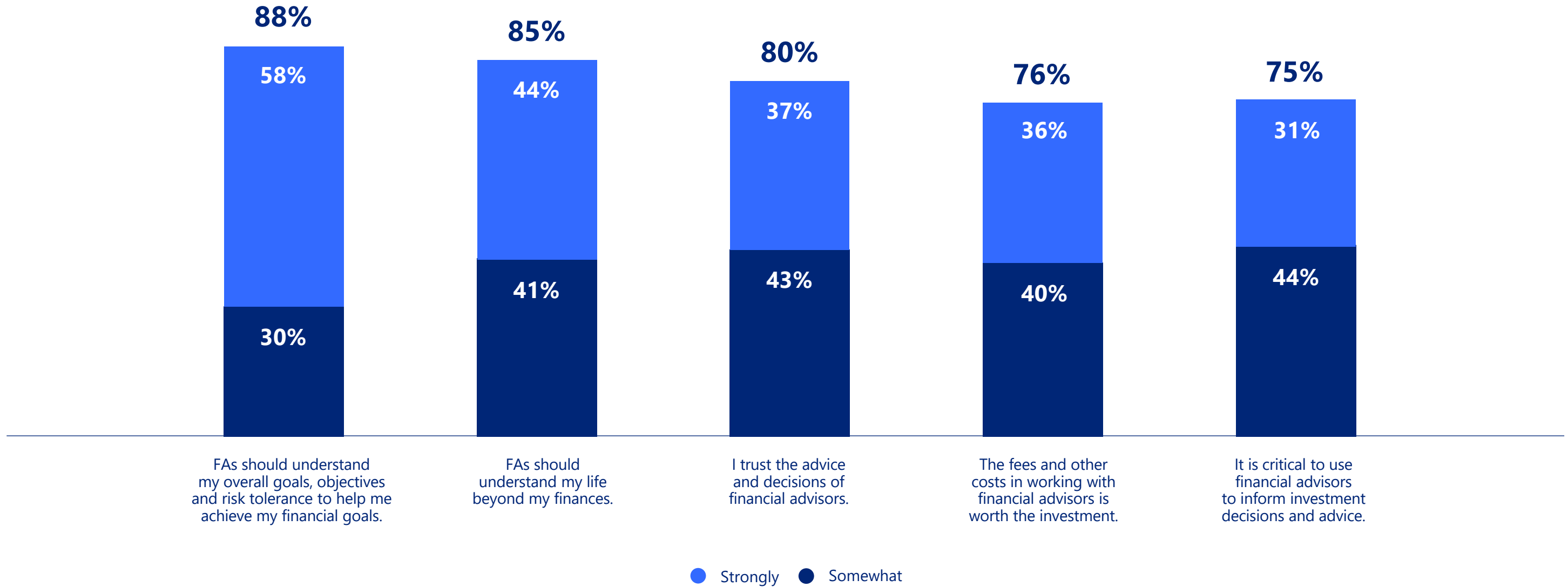
**Clients are looking for relationships that extend beyond their portfolio to their overarching goals and attitudes.**



**They trust the advice and options Financial Professionals provide.**

They see the fees and costs involved as a good investment.

# What respondents value in a financial advisor



Source: WSJ Intelligence 2024. Equitable Thought Leadership Study Base: Total respondents, n=500. Q. Now, thinking about your attitudes in regard to financial advisors, how much do you agree or disagree with the following statements?



# Study conclusions



**The expected beneficiaries of the Great Wealth Transfer are generally knowledgeable about investing.**



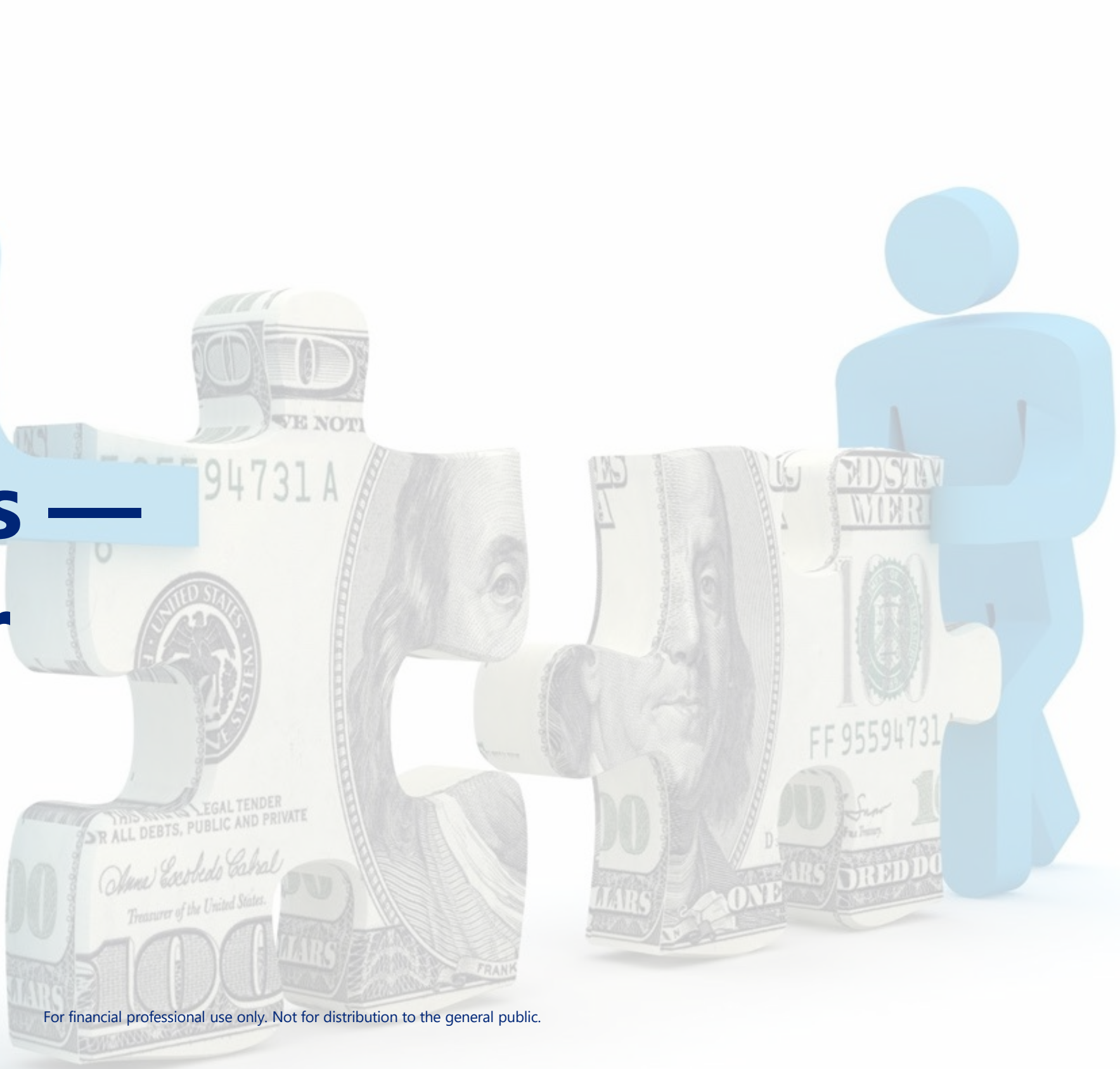
**Many investors do not fully understand how an FA could help them now.**



**For complex products in particular, FAs have an important role to play in connecting benefits to long-term goals.**

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# Takeaway ideas — wealth transfer





# Takeaways



## Trust and annuity opportunities

- Wealth transfer
- Annuity beneficiary
- Do's and don't's



## RMDs and wealth transfer

- QCD
- IRA with living benefit to fund ILIT



## Inherited IRAs

- Post SECURE Act planning
- CRT as beneficiary

# Why annuities — tax landscape



## Medicare surtax:

- 3.8%
- Surtax is **lesser of** investment income or MAGI over \$200,000 (Single), \$250,000 (MFJ) and \$14,450 (Trusts and Estates)

Source: website [www.irs.gov](http://www.irs.gov)



## Income tax and capital gains:

### Tax brackets

- No 37% bracket for incomes above \$578,125 (Single), \$693,750 (MFJ) and \$14,450 (Trusts and Estates)

### Capital gains and qualified dividends

- Raises to 20% for incomes in excess of \$492,300 (Single), \$553,850 (MFJ) and \$14,650 (Trusts and Estates)

# Trust-owned annuities and tax deferral

## Section 72(u) applies to non-natural owners

### General rule:

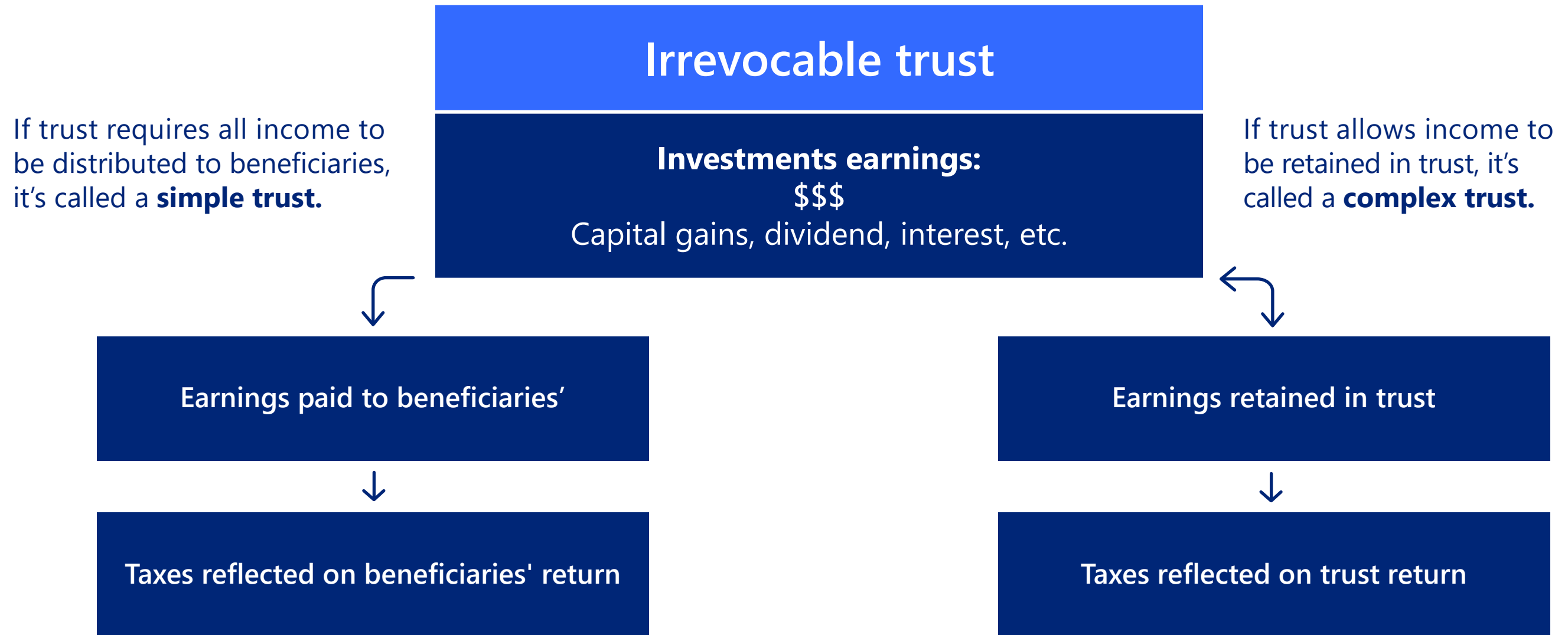
No tax deferral

### Exception:

Entities acting as an **agent for a natural person**

**If all the beneficiaries of the trust are people, the annuity may be eligible for tax deferral.**

# Taxation of income for an irrevocable trust





# Trust as beneficiary of nonqualified annuity



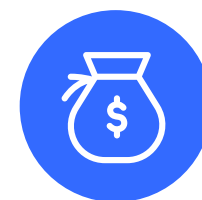
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**Trust can still be a beneficiary of NQ annuity.**



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**Stretch option is not available to trust beneficiary of NQ annuity.**



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**Lump-sum distribution may be required.<sup>1</sup>**

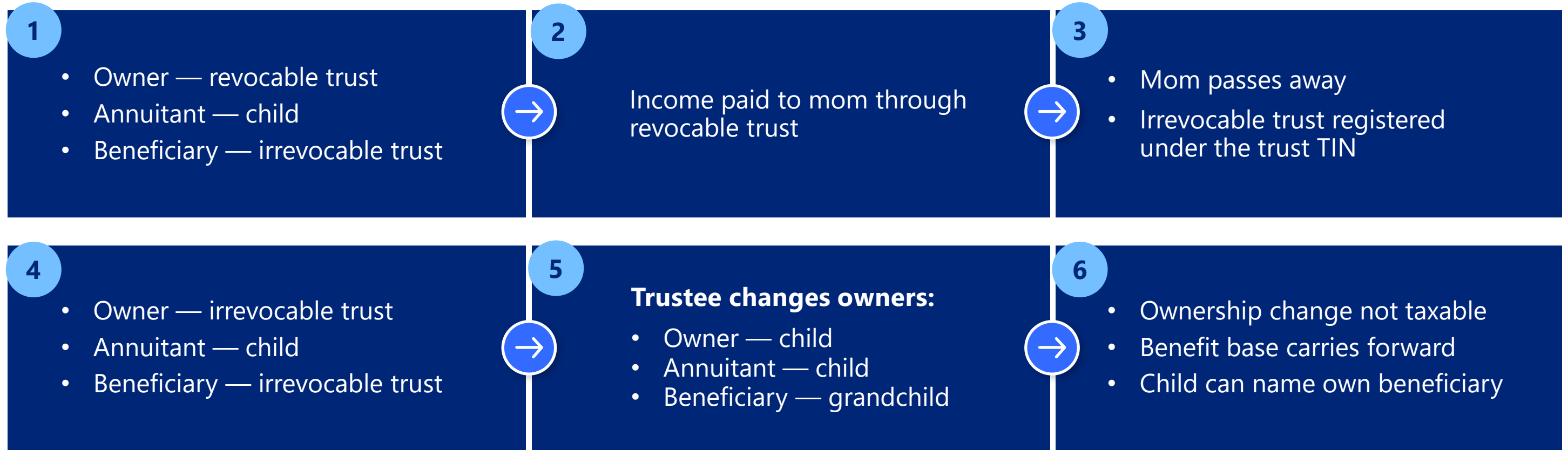
<sup>1</sup> Some productions may allow for 5-year deferral. Always check with product carrier for distribution options.

# Beneficiary distribution options

Spouse	Non-spouse
Lump sum	Lump sum
Defer 5 years <sup>1</sup>	Defer 5 years <sup>1</sup>
Annuitize	Annuitize
Stretch — inherited annuity	Stretch — inherited annuity
Spousal continuation	

<sup>1</sup> Five-year option not available if the policy holder dies on or after the annuity starting date.

# Plan in action



# SECURE Act — final IRA beneficiary rules

**SECURE Act — introduced the 10-year rule for IRA beneficiaries 2020 and beyond**

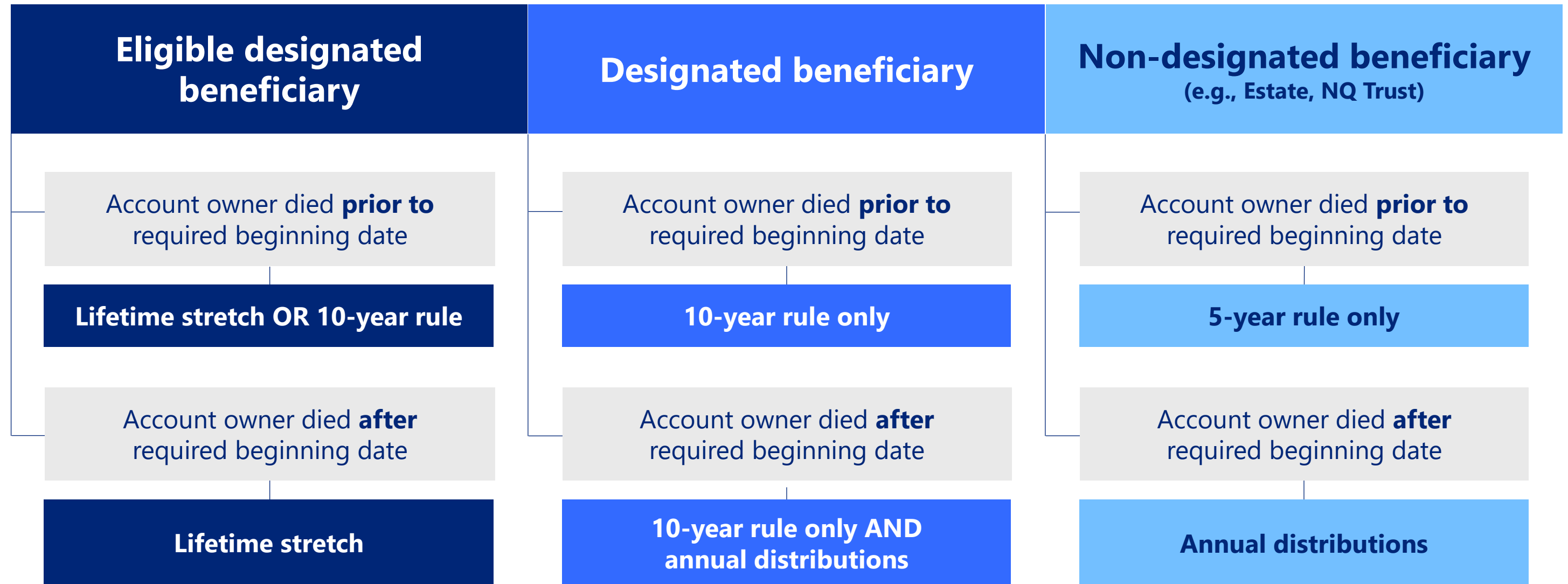
**Current proposed regulations updated the definition of how the 10-year rule would be applied — now final for 2025**

- Penalties for missed RMD to now be enforced
- Penalty previously waived 2020–2024

**Under current proposal non-eligible designated beneficiaries would be split into two groups determined by when IRA owner died**

- Pre-required beginning date: 10-year rule
- Post-required beginning date: 10-year rule and annual distributions

# IRA beneficiaries post-SECURE Act



# Tax-efficient retirement planning

## Qualified charitable distributions (QCDs)



### **SECURE Act has NOT changed the age requirement.**

QCDs can be made as early as 70½, not RMD age.

#### **QCD rules:**

- \$108,000 annual exclusion from gross income per taxpayer
- IRAs only
- Must have attained age 70½
- Distributions made directly to qualified charity
- Donor does not receive tax deduction for the QCD
- Can also apply to IRA beneficiaries over 70½

#### **QCDs can be combined with a wealth protection strategy.**

- For IRA owners only taking RMDs as required:
  - Look to combine QCDs with death benefits.
  - Lower current income taxes and protect wealth for generational transfer.

Source: website [www.irs.gov](http://www.irs.gov)

# IRA with living benefit to fund ILIT

## Case study: 65-year-old client

Edward (65) currently has two adult children from his first marriage that he wants to provide an inheritance.



Ed would like to use current income to fund a life insurance policy for the children separate from the assets going to his current spouse.

- Would like to accomplish outside of his current estate.

He would like to leverage his annual gift amount to fund the life insurance.

Ed currently has \$2,000,000 in an IRA that he never intends to use for retirement income.

- Eventually will be forced to take RMDs from the IRA.

# IRA with living benefit to fund ILIT

- Annual gift limit of \$19,000.
- Annuity with a living benefit can be leveraged to fund life insurance/wealth transfer.
- Transfers to the trust of \$19,000 per beneficiary using gift tax exclusion.
  - Crummey provisions
- Leverage less efficient wealth transfer options to reposition inheritance assets.



Source: website [www.IRS.gov](http://www.IRS.gov)



# IRA with living benefit to fund ILIT



**Ed can put \$800,000 into an IRA with a 6% withdrawal benefit**

- \$38,000 allowable withdrawal is enough to fund the gifts after tax
- 2 x \$19,000

**The IRA can benefit Ed in multiple areas**

- The living benefit can be leveraged to provide the insurance premium
- The annuity buffers may help protect the IRA asset for additional wealth transfer

**Allows Ed to accomplish his goals of:**

- Provide life insurance protection for the children
- Spend down a less efficient wealth transfer investment (IRA)



# Charitable remainder trust as IRA beneficiary

## Alternative strategy

**An alternative distribution strategy can be to leave IRA proceeds to a charitable remainder trust (CRT).**

**Estate would get a tax deduction and CRT would not owe any income tax.**

**Trust beneficiary can receive lifetime income from the CRT.**

### **Using annuities inside of a CRT:**

Buffered annuity strategies can be an excellent investment vehicle for a CRT.

# Nonqualified annuities — Wealth Transfer

**SECURE Act did not impact NQ annuities**

**Lifetime (stretch) distribution is still an option**

**May be a more attractive wealth transfer opportunity**

**1035 for beneficiary may be an option**



# Inherited annuity option – case study

## The Jones Family

**Mr. Jones opens a non-qualified variable annuity at age 65.**

- **He avoids withdrawals due to alternative income sources.**
- **At age 85, he passes away, leaving his contract to his wife as beneficiary.**

**Mrs. Jones, now age 80, continues the contract without needing to take withdrawals. Five years later, she passes away.**

Upon Mrs. Jones's death, her children, John (age 63) and Jane (age 60), inherit the contract as equal beneficiaries.

They choose to continue the contracts as non-qualified inherited annuities and take Required Minimum Distributions based on their own non-recalculated single life expectancies.

**This option allows John and Jane to collect income distributions over their life expectancies.**

**22.7 and 25.2 years of additional tax deferral.**

# Conclusion

## Maximizing Opportunities in the Great Wealth Transfer

The Great Wealth Transfer opens vast opportunities for financial professionals to build, grow and strengthen their practices

Understanding current trends can lead to strengthened relationships with future generations.

Building relationships can significantly enhance business growth.



**Equitable is your partner in navigating these changes.**

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