



WHAT ARE THE ADVANTAGES OF USING A PRIVATE ANNUITY?

The private annuity offers the following benefits:

Estate tax savings upon premature death.

The remaining principal balance would not be included in the seller's estate at their death because, by the terms of the private annuity contract, it cancels at the seller's death. The estate tax savings can be substantial if the seller dies materially prior to his or her life expectancy. If the purchaser is a nongrantor trust, the seller's estate would be further reduced by the capital gains taxes paid on the sale.

Backloading of payments.

The private annuity can be designed so that each annuity payment increases up to 120% more than the prior annuity payment. Such backloading offers the advantage of necessitating small payments in the beginning to leverage the return on the interest that was sold. Compare this with a traditional installment sale, where backloading is available in the form of interest-only payments with a balloon payment of principal at the end of the term.

Lesser Risk of Survivorship.

Survivorship beyond the seller's actuarial life expectancy is likely to result in a higher estate tax liability than if the seller were to implement a traditional installment sale. However, this risk is less severe with a private annuity than a Self-Cancelling Installment Note ("SCIN") (see separate white paper topic), which includes a risk premium and provides for a balloon payment of principal at the end of a term that is shorter than the seller's life expectancy.

Fewer calculation uncertainties.

Since the factors on which a private annuity are based are given by the IRS, the calculation of payments under a private annuity are relatively straightforward. A SCIN does not come with such assurances.