THE FAMILY WEALTH IRA

FINANCIAL SITUATION

Having worked hard and planned well, an IRA owner may find that the accumulated funds in the IRA are not needed for retirement. The IRA likely has considerable value. Since an IRA is subject to both estate and income taxes, over half of its value may be depleted by the time the beneficiaries receive the asset. The following is an alternate plan to increase the amount the beneficiaries receive.

POSSIBLE SOLUTION

Consider a "FAMILY WEALTH IRA". Supplemented with life insurance, a "FAMILY WEALTH IRA" can transfer significantly more wealth to heirs than an IRA inherited at the owner's death. The ideal candidate (1) does not need the income or principal from the IRA, (2) is insurable, and (3) has the willingness and ability to pay the income tax upon liquidating the IRA. In addition, the IRA owner has sufficient annual exclusion/exemption amounts to shelter the gifting of the IRA proceeds to an Irrevocable Life Insurance Trust (ILIT) for the benefit of the heirs.

STRATEGY

The critical component of the "FAMILY WEALTH IRA" is the client's insurability, which must be established prior to liquidating the IRA. Anytime after the IRA owner reaches the age of 59½, when there is no penalty for the withdrawal of funds, the owner can terminate the IRA. Income tax will be due on the distribution of those funds at that time. The net amount is then gifted to an Irrevocable Life Insurance Trust (ILIT), and the Trustee purchases a life insurance policy. If the IRA distribution exceeds the owner's annual exclusion/exemption amount, a side fund can be established for the excess funds. The side fund can provide a source for additional gifting to the ILIT to pay premiums in later years. If properly established, the death benefit and balance of the trust corpus will be transferred free of estate and income taxes upon the IRA owner's death.

HOW IT WORKS

1

IRA

The IRA is liquidated and the proceeds are distributed to the IRA owner.

2

Income tax is paid on the distribution. The net proceeds are gifted to the ILIT using the available annual exclusions/lifetime exemptions. The balance, if any, is placed in a side fund.

3A

ILIT

ILIT purchases an insurance policy.

3B

SIDE FUND

Used to make additional gifts to ILIT for premiums.

4

Upon death, the balances of the ILIT and Side Fund are distributed to the beneficiaries.

RESULTS AND EXAMPLE

Using a "FAMILY WEALTH IRA," transfer of wealth to the heirs is maximized. The following example demonstrates the potential of liquidating an IRA to increase the benefits to the heirs.

Husband and wife, 73 and 69 years old respectively, are rated standard non-smoking. They have two children. The husband has an IRA worth $4,000,000 that is not needed for retirement income. If they do no planning and live to life expectancy, in 17 years the children will inherit $3,320,278 (based upon 6% growth, net RMD balance grown at 4%, and after payment of estate taxes and income taxes).

Alternatively, the husband liquidates his IRA and pays the income tax on the distribution. At an income tax rate of 35%, the net value of the asset is $2,600,000. The couple gifts $2,000,000 (using their combined gift tax exclusions) to an ILIT and puts the remaining $600,000 into a side fund. They continue to gift $48,000 annually to the ILIT from the side fund, sheltering those gifts with their annual gift tax exclusions.

The ILIT purchases a survivorship policy with an annual premium of $138,500[1] with a death benefit of $6,719,729. Upon the death of the husband, the wife continues to gift the maximum annual gift tax exclusion amount to the ILIT. When the wife dies in year 17 (life expectancy), the children will inherit $8,343,153 (life insurance death benefit, balance of ILIT, and the side fund net after payment of estate tax).

The difference to the heirs is $5,022,875.

	Do No Planning[2]				**Liquidate and Buy Life Insurance[3]**					
	1	2	3	4	5	6	7	8	9	10
Year	IRA Balance	Net RMD's at 4%	Net IRA after Estate & IRD Tax	Net to Heirs[2]	Gift to Trust	600K at 4%	Premium	Value of Trust EOY	Death Benefit	Net to Heirs with Life Ins.[3]
1	$4,078,057	$105,263	$2,148,533	$2,195,901	$2,048,000	$600,000	$138,500	$1,985,880	$6,719,729	$8,975,609
5	$4,335,484	$657,308	$1,680,923	$2,042,442	$48,000	$489,932	$138,500	$1,923,522	$6,719,729	$8,912,713
10	$4,474,268	$1,663,672	$1,550,483	$2,465,502	$48,000	$325,694	$138,500	$1,830,474	$6,719,729	$8,729,334
15	$4,089,828	$3,098,630	$1,340,319	$3,044,566	$24,000	$203,789	$138,500	$1,639,352	$6,719,729	$8,471,165
17	$3,839,876	$3,801,653	$1,229,369	$3,320,278	$24,000	$169,500	$138,500	$1,530,200	$6,719,729	$8,343,153

[1] Sun Survivorship UL LP3 (2007)

[2] The amount is the sum of column 3 plus [.45 (column 2) [net after estate tax]].

[3] The amount is the sum of column 8 plus column 9 plus [.45 (column 6) [net after estate tax in year one]].
The amount is the sum of column 8 plus column 9 plus [.55 (column 6) [net after estate tax in years 5-17]].

The estate tax rate used is based on the input of current net worth and the assumed estate growth rate; the calculation of the estate tax is based on federal estate tax law in effect on 1/1/2007. The estate tax calculation is based on the percentage of the IRA in relation to the gross estate multiplied by the total amount of estate tax due in the applicable year. These laws change frequently; please consult your financial or tax advisor for any changes to these laws that may affect your specific situation. Some states may impose death taxes. This illustration does not reflect such taxes.

Contact our **Advanced Planning Attorneys** at 800-432-1102, ext. 1846, 1756, 1838, or 1969, or the **Advanced Case Design Team** at ext. 2450.

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