IRA Max

OPPORTUNITY FINDER – TAX-EFFICIENT WEALTH TRANSFER PLANNING

ADVANCED MARKETS

CLIENT PROFILE

- Retirees (ages 60 and older) and generally healthy
- Have an IRA or other qualified plan, but retirement income needs are fully met through other sources
- ***Especially*** – If over the age of 72, are reinvesting required minimum distributions (RMDs) into a taxable account
- Interested in tax-efficient strategies for wealth transfer – especially if estate taxes are an issue

CONCEPT BRIEF

Successful wealth creators often arrive at retirement with more than enough assets to fund their desired lifestyle. In fact, a major part of their financial planning problem is addressing how best to pass on the assets remaining at death. Balances held inside tax-deferred qualified plans are among the least efficient assets for transferring to later generations. That's because qualified plan assets are subject to taxation as Income with Respect to a Decedent (IRD) and are includable in the taxable estate for federal estate tax purposes.

In most cases, high-net-worth individuals allow their traditional IRAs to force taxable distributions that they don't want or need. Those distributions, net of income taxes, just get added to their investment portfolio to further accumulate inside the taxable estate. A more active strategy for managing a traditional IRA can reduce, or even eliminate, the IRD and estate tax burden on plan balances while increasing the wealth transferred to heirs.

Clients who wish to leave a majority of their assets to their families should consider IRA Legacy Maximization. To use this strategy, a client must be sure that they will not need the portion of the IRA for retirement income.

Clients have two choices from the IRA:

Invest in a SPIA

Take Distributions

HOW IT WORKS

The IRA owner establishes an individual life insurance trust (ILIT) which applies for a life insurance policy on the owner's life (or a joint-life policy on the owner and spouse). The owner begins annual distributions from the traditional IRA to fund the life insurance and has two choices:

A. Invest the IRA assets designated for repositioning in a single-premium immediate annuity (SPIA), which provides a lifetime income for the client. With a SPIA, there are no market fluctuation risks to contend with. The income is 100% guaranteed, so the owner cannot outlive the income and the value includable in the taxable estate at death is zero.

B. Take annual early taxable distributions if the owner is between the ages of 60-72, or take RMDs if over the age of 72.

ASH BROKERAGE
Ash Answers.

In either case, the after-tax distribution proceeds are gifted to the ILIT to fund the life insurance policy. Upon the insured's death (or death of the survivor if both spouses are insured), the death benefit will be paid to the trust for distribution to the heirs without being subject to income or estate taxes.

LET'S TAKE A CLOSER LOOK

Jane is a 70-year-old woman who owns a traditional IRA with a current balance of $1,000,000. She intends to add the after-tax RMDs she'll be receiving to her investment portfolio. Assuming the IRA grows at 6% and the reinvested RMDs grow at a net 4.65%, how much will her beneficiaries receive after taxes?

IRA Value at Age 85: $1,137,613
Portfolio Value at Age 85: $738,348
Estate and IRD Taxes Due: $989,283
Net to Heirs: $886,678

Alternatively, Jane begins taking level distributions of $68,537 from her IRA which, at 6%, will draw the IRA balance down to 0 at age 100. If she gifts the after-tax distributions of $44,549 to her ILIT to fund a life insurance policy, how much death benefit will her heirs receive income and estate tax-free?

IRA Value at Age 85: $705,584
Estate and IRD taxes due: $430,406
Tax-Free Death Benefit: $1,736,125
Combined Net to Heirs: $2,011,303

CONVERSATION STARTER

If you are planning to (or are currently) taking only the required minimum distributions from your IRA or other qualified plan, you should realize that a tax-deferred qualified plan account is a very inefficient asset for wealth transfer. Would you like to analyze a strategy to reallocate your IRA to reduce transfer taxes and maximize the amount passing to your heirs?

NEXT STEPS

1. Identify clients you currently serve who have a strong retirement income plan and whose assets include a tax-deferred qualified plan
2. Schedule an appointment to discuss their wealth transfer plans
3. Discuss how tax efficiency of asset transfer plays a significant role in how they can leverage their wealth transfer plan and offer a client analysis
4. Gather pertinent information regarding the qualified plan account value and general health of the client and share this information with your Ash team

Take Action:

Identify Clients

Schedule Appointment

Client Discussion

Gather and Share Info