



## Save your IRA nest egg for your family, not the IRS

Passionate. Loyal. Dedicated. Those are the qualities that made you a successful professional—the same ones that led you to spend your entire working life building wealth for your family. With singular responsibility, you planned wisely for retirement, making the most of your IRA and other investments. Now that your working days are over, you're sitting on quite a nest egg. In fact, you now realize that you may not need all of the income your IRA will produce, and you want to preserve as much as you can for transfer to your heirs.

**Unfortunately, the IRS has other plans for your nest egg. The government forces you to take distributions from your IRA at age 70½. The IRA was a great tax shelter during your lifetime, but it may be the most difficult asset to transfer on a tax-efficient basis when you die. IRAs are potentially subject to multiple levels of taxation:**

- Estate Taxes can reduce the size of the plan up to 45%.<sup>1</sup>
- Income Taxes can reduce the balance up to an additional 35%.<sup>1</sup> And, if the transfer is to a grandchild...
- Generation-Skipping Transfer Tax could reduce the value of the asset even more.<sup>2</sup>

Taxes based on 2007 rates.

<sup>1</sup> Income taxes are paid by the beneficiary and can be partially offset by a deduction for the estate taxes paid that are attributable to the qualified plan.

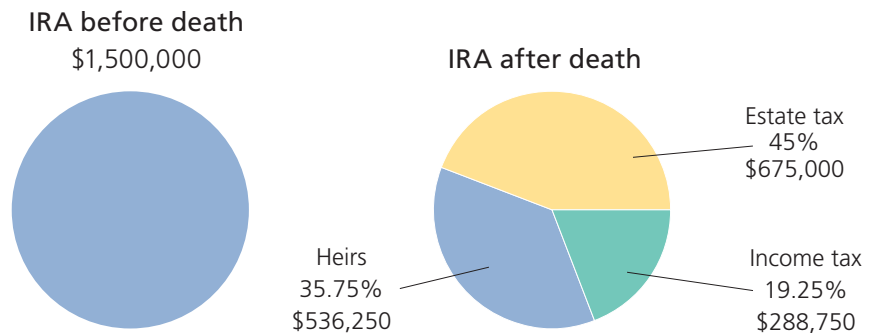
<sup>2</sup> The generation-skipping transfer tax is a flat 45% tax that is only applied when the asset is transferred to a grandchild or other skipped generations.

### The problem illustrated

Here's an example of the problem you may face if you have a sizeable IRA. Let's say you have a total estate of \$5,000,000, including \$1,500,000 in your IRA. If you were to die in 2007, the combination of estate and income taxes on the IRA might surprise you:

IRA	\$1,500,000	
Estate tax @ 45%		\$675,000
Income tax deduction	<u>(675,000)</u>	
Income taxable	825,000	
Income tax @ 35%		<u>288,750</u>
<b>Total taxes</b>		<b>\$963,750</b>

That equates to shrinkage of nearly \$1,000,000, or 65%! Your heirs receive only 35% of your IRA's value. The IRS has scrambled your nest egg!



### The solution defined

Fortunately, there is a simple solution that can help keep your nest egg in the family. Instead of losing 65% in taxes after you die, you can plan for the orderly transfer of your IRA today. If you're interested in seeing how this solution may help you, please contact your financial advisor:

- Plan now to take distributions from your IRA. (Minimum distributions are required at age 70½.)
- Gift the after-income tax amount to an Irrevocable Life Insurance Trust (ILIT) that you have set up. (It may qualify as an annual exclusion gift.)
- Have the trustee of your ILIT purchase a life insurance policy on your life.
- When you die, the life insurance proceeds are paid to your trust to help offset the federal estate and income taxes.
- The balance of your IRA will transfer to your designated beneficiaries.

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