



# SECURE Transfer Planning CASE STUDY

Appropriate planning can help maximize assets passed on to beneficiaries.

**Let's look at Jane and consider how taxation and the SECURE Act can impact assets she wants to ultimately pass on to her son at her death.**

Jane is a healthy 60-year-old. She has done a great job accumulating retirement assets during her working years and feels very confident about having the income she needs to last a lifetime. She wants to have a plan in place for her son Scott to inherit her remaining assets. Among her assets is a \$300,000 IRA.

If Jane names Scott as the beneficiary of the IRA, he will have to pay income taxes on the money he takes out – as high as 37% currently — just for federal income taxes, let alone your state taxes.<sup>1</sup> And he likely will have to withdraw all the money by the 10<sup>th</sup> year after Jane's death, whether he wants to or not. That IRA was great for Jane's accumulation goals, but is not an efficient way for Scott to receive it.

**The Solution is SECURE Transfer Planning Using Life Insurance**

**What if Jane:**

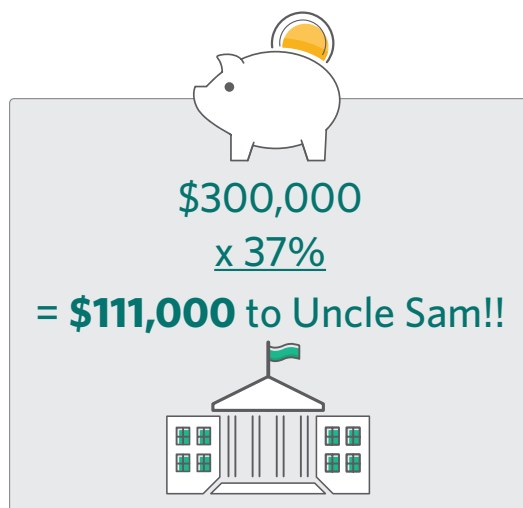
- Withdraws or annuitizes the balance in the IRA
- Pays the income taxes when she receives the money
- Uses the money remaining after the taxes are paid to purchase a life insurance policy

**Then:**

- Jane can use the living benefits of the policy while alive such as chronic illness or long-term care if she owns the policy
- Scott may receive a tax-free death benefit as high as 2 or 3 times the IRA being used
- Jane brings more certainty to her legacy planning and can sleep better knowing that Scott will be receiving this tax free death benefit
- The IRS won't make Scott take the money in 10 years, but
- Jane can direct how quickly or slowly Scott takes the money if she sets up a trust to receive the life insurance

**So, Jane controls the timing — NOT the IRS.**

*(continued on back)*



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### **So, what if Jane had an estate tax concern?**

High net worth individuals need this even more! If Jane's total assets cause her to be subject to estate taxes, then

- Jane's estate may have to pay estate taxes at a rate as high as 40% on the IRA and other assets above the limit, AND
- Scott still has to pay income taxes on that same money - DOUBLE TAXATION!

### **The Solution is SECURE Transfer Planning with an Irrevocable Life Insurance Trust (ILIT)<sup>2</sup>**

#### **What if Jane:**

- Takes all the same steps described above
- Contributes the money to an ILIT, subject to gift tax limitations
- Has a trust purchase a life insurance policy and be the beneficiary

#### **Then:**

- The death benefit is still income tax free
- The death benefit is estate tax free
- The funds can be used to pay estate taxes, pay other settlement costs and provide for Scott
- Jane effectively controls the distribution of the funds after her death using the terms of the trust



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<sup>1</sup>Keep in mind there could be offsetting tax deductions if estate tax was paid, so it is important to work with your tax advisor when inheriting assets that fall under the definition of "Income in Respect of a Decedent". In the above example, the beneficiary may get up to a \$120,000 income tax deduction because of the federal estate tax paid attributable to the IRA.

<sup>2</sup>Consult with an experienced estate planner and your tax advisor to structure an irrevocable trust.

Consult with a professional tax and/or legal advisor before taking any action that may have tax or legal consequences.

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