Do You Want to Leave Your Heirs a Tax Bill or a Legacy?

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You've accumulated significant savings in your IRA and your employer's retirement plan.

What will happen when your spouse and children inherit those funds?

Will your beneficiaries inherit a tax bill?

When you die, the money you have in your traditional IRAs and qualified plans is known as "income in respect of a decedent," or IRD. At your death, IRD is taxable income to your beneficiaries when it's distributed. This reduces the amount they will ultimately receive.

Furthermore, if your estate is large enough to be subject to state and/or federal estate taxes, your retirement assets will be taxed twice. This "double tax" could reduce the amount your heirs receive by as much as 60%.[1]

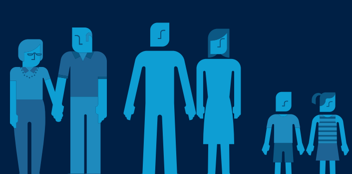
The following strategies may help maximize the amount you leave your family.

Saving for the future and maximizing your savings are probably more important today than ever. The strategy that's appropriate for you will depend on your circumstances.

Your financial professional, working with your tax and legal advisors, can show you how these approaches may apply in your situation.

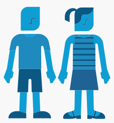
LIFE INSURANCE PROVIDES YOUR LOVED ONES WITH THE ABILITY TO HELP:

- Meet income and estate settlement obligations to avoid liquidation of taxable retirement funds.
- Keep retirement accounts intact so your beneficiaries can stretch distributions over their lifetimes.
- Provide an inheritance and immediate liquid funds for your children through life insurance, allowing your grandchildren to benefit from your IRA funds.



[1] An income tax deduction is allowed for the federal estate tax attributable to the amount of IRD received.

An IRA Inheritance Story:
One Family; Three Four Strategies



CONSIDERING YOUR YOUNGEST HEIRS (GRANDCHILDREN, NIECES, NEPHEWS, OTHERS) AS BENEFICIARIES FURTHER MAXIMIZES TAX DEFERRAL AND IS GENERALLY THE BEST "STRETCH" STRATEGY.

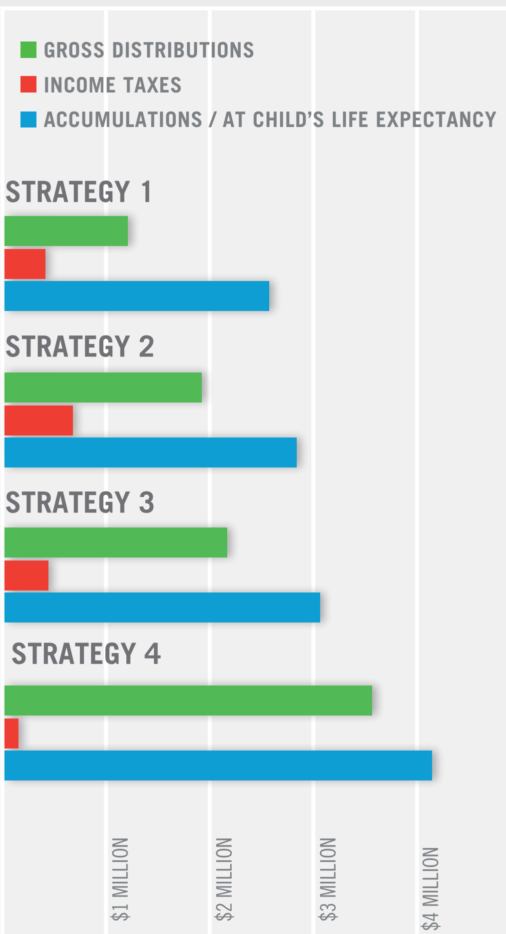
Hypothetical Case Study:

The following financial strategies can impact the overall distributions (money paid out) and accumulations (growth of the money) of an IRA inheritance. Accompanying graphs can help show the impact of an IRA asset over two or three generations.

Here are the facts and assumptions:

- Dad (age 65) has a $500,000 IRA growing at 5% that will benefit Mom (age 60); they have a son (age 35).
- At Dad's death, Mom elects a spousal rollover and reselects their son (age 55) as her beneficiary.
- Income taxes of 30% are assumed on all taxable distributions.
- All distributions are reinvested with other assets (currently $0) at 3.5% after tax.
- Federal and state estate taxes are assumed to be zero between the two generations.

DISTRIBUTIONS & ACCUMULATIONS (OVER THE LIVES OF THE PARENTS AND CHILDREN)



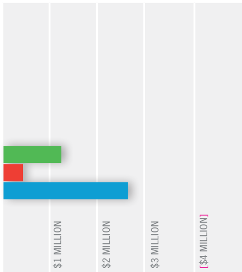
STRATEGY 1: Mom and Dad take their required minimum distributions. After Mom's and Dad's deaths, the son takes all of the money out of the IRA. The son either wants or needs all of the money at that time and doesn't plan properly to defer the funds inside an inherited IRA. For comparison purposes, distributions are reinvested.

STRATEGY 2: Mom and Dad take the required minimum distributions while they're alive. After their deaths, their son (age 61) takes the required minimum distributions over his life (24.4 years). He reinvests the net distributions after tax. This keeps the IRA tax shelter intact, unlike what occurs in Strategy 1.

STRATEGY 3: Mom and Dad want to convert Dad's IRA to a Roth IRA. The necessary liquidity is not available to pay the taxes for a current Roth conversion. Instead, Mom and Dad take the required minimum distributions and use other liquid assets to purchase life insurance on Dad's life. By doing so, the life insurance policy's death benefit will provide Mom the funds to pay the taxes on a Roth conversion at Dad's death. Their son then takes the required minimum distributions (now tax-free) over 24.4 years and reinvests them into a taxable account. Their planning efforts give their son a way to maximize their legacy by using life insurance.

[**STRATEGY 4:** Assuming Mom and Dad have sufficient cash resources to pay the taxes that are due when converting from an IRA to a Roth IRA, they convert today. By doing so, they maximize their legacy by NOT taking any distributions during their lifetimes. After their deaths, over 24.4 years, the son takes only required minimum distributions from the converted Roth IRA. He reinvests these distributions into a taxable account.]

STRATEGY 1 Plan for the payment of the tax.



Taxes are due immediately when the IRA is fully paid out (distributed). The death benefit from life insurance would be an effective way to help cover the taxes that will be due and would help retain the value of the IRA to your beneficiaries.

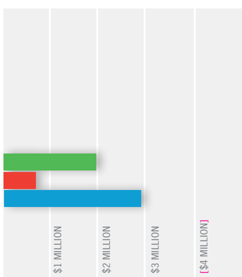
ADVANTAGES:

- This is a simple strategy for immediate liquidity.
- There are no rules or minimum distributions to manage over time.

DISADVANTAGES:

- The opportunity for tax-deferred growth is lost.
- Your legacy for future generations may be negatively affected.

STRATEGY 2 Stretch distributions to take advantage of tax-deferred growth.



Keep the money in your IRA working for you and your heirs. Stretch the deferred growth over your and your heirs' lifetimes. Taxes will be due as distributions are taken.

ADVANTAGES:

- This is a relatively simple strategy for supplementing your retirement income.
- You can maximize your tax-deferred growth by taking only minimum distributions when they are required.

DISADVANTAGES:

- The amount of taxes you will pay overall will be higher than with some of the other strategies.
- There are no limitations on the amount of money you can take in each distribution, which could threaten your legacy to future generations.[2]
- Your potential legacy is lost if you have a long life and use the whole value of your IRA.

STRATEGIES 3,4 ASSUME A ROTH IRA CONVERSION

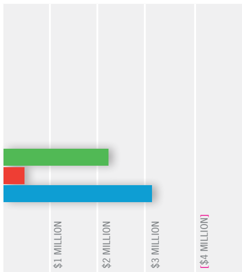
BENEFITS OF A ROTH IRA

- Income tax-free distributions for the owner, as long as the account is five tax years old.
- No required minimum distributions for the owner or spouse.
- Conversion is allowed at any time by the owner of the IRA or the beneficiary with no income limitations.*
- Potentially income tax-free distributions for your beneficiaries, as long as the account is at least five tax years old.
- May provide income for your beneficiaries' lifetimes if the minimum distribution rules are followed.

*This is only available for the non-spouse beneficiary inheriting funds in employer plans.

[2] If you are concerned that your beneficiary will deplete the distributions from your account instead of stretching them over his or her life expectancy, naming a trust as beneficiary may be helpful. The trust can be designed to spread out the distributions.

STRATEGY 3 — Convert to a Roth IRA ... tomorrow.



Money may not be available today to pay the taxes that will be due on a Roth IRA conversion. Instead, pay for a life insurance policy using other liquid assets. When the owner of the IRA passes away, the death benefit from the life insurance policy will provide the funds due on the Roth IRA conversion.

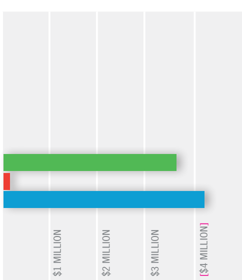
ADVANTAGES:

- There is a clear strategy for paying taxes that will be due when the conversion happens.
- The required minimum distributions from the IRA may be sufficient to pay for your life insurance premium.
- You will continue to maximize any tax-deferred growth by taking only required minimum distributions.
- You'll leave a legacy for future generations.
- Your tax shelter is maintained.

DISADVANTAGES:

- You may pay higher taxes if you convert tomorrow since the value of your IRA may be higher.
- Your required minimum distributions may deplete your IRA value if you live a long time.
- You may not medically qualify for life insurance or your premiums may be excessive.
- You may want to have life insurance on both partners' lives.

STRATEGY 4 — Convert to a Roth IRA ... today.



When you convert your IRA to a Roth IRA, you will owe taxes on its value and pay according to your current tax bracket. Once you have the Roth IRA in place, all distributions will be income tax-free after five tax years.[3]

ADVANTAGES:

- You pay the tax due today vs. the unknown and possibly higher levels tomorrow.
- All distributions from the Roth IRA are tax-free.
- Any tax-deferred growth is maximized because there are no required minimum distributions for you.
- Your legacy for future generations is intact.

DISADVANTAGES:

- The taxes you pay today may be higher than what you will pay in the future if your tax bracket will be lower.
- The taxes that are due will lower your current liquidity, which you may need during retirement.
- You would have to wait for five tax years after the conversion to take tax-free distributions of any growth to supplement your income.

[3] A distribution is "qualifying" if it is made after the account has existed for five tax years and after the account owner reaches age 59½ or becomes disabled or dies. The principal can always be distributed income tax-free.

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