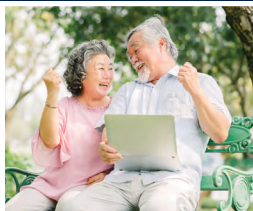




SHOULD YOU BE CONCERNED ABOUT IRD?  
**Your retirement plan or a tax bill:  
Which will your children inherit?**

**ADVANCED  
PLANNING**



# Life Insurance

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# YOUR RETIREMENT PLAN OR A TAX BILL: WHICH WILL YOUR CHILDREN INHERIT?

## THE CHALLENGE

You have spent your working life preparing and investing for your retirement. You have faithfully made regular contributions and have accumulated a large balance in your IRA or in a qualified retirement plan. You want to be certain that the maximum amount of your retirement funds will be available for the benefit of your family after your death.

Investing is enough of a challenge, but there is potentially a large obstacle in the way that can make achieving your goal even more difficult. That obstacle is something called Income in Respect of a Decedent, commonly referred to as IRD.

## WHAT IS IRD?

IRD is taxable income earned before the death of an individual, but not paid until after their death. A common example is wages earned while alive, but not paid until the year after death. Since the individual did not receive the income before they died, it is not reported on their tax return. Instead, it is taxed to the recipient when it is received. And, **the greater the accumulation during a lifetime, the greater the tax burden for the beneficiary.**

## QUALIFIED RETIREMENT PLANS AND IRAS ARE IRD ASSETS

Qualified plans provide a very efficient way for you to accumulate retirement funds. Typically, a tax deduction is available in the year the contribution is made, and income tax is deferred on the funds as they grow. The usual result is that, at your death, no income tax has been paid on funds that remain inside the plan or IRA. That is why those funds are characterized as IRD and subject to income tax when your loved ones receive them.

## THE POSSIBILITY OF DOUBLE TAXATION

If your estate is subject to estate tax and is also the beneficiary of your qualified plans and IRAs, these assets will be taxed twice. The estate tax is based on the transfer of assets that you have an interest in at death. That includes

qualified plans and IRAs, meaning that they are subject to estate tax in your estate, as well as income tax when received by your loved ones. Even though a deduction is allowed for the federal estate tax attributable to the amount received, this “double tax” can reduce the value passing to your loved ones. This tax treatment could make it difficult to reach your goal of leaving your family with as much wealth as possible.

## ONE SOLUTION

There are a number of ways to maximize the amount that your loved ones will receive. The best strategy for you will depend on your personal circumstances. No single technique is right for everyone. One very simple and easy solution is to earmark the use of permanent insurance on your life to pay your IRD tax.

If your estate is not subject to the estate tax, you could purchase the policy on your life and name your children as beneficiaries. If your estate is subject to estate taxation, the policy could be purchased by your children or by an irrevocable life insurance trust for their benefit. If policy ownership is properly structured, your children can receive the life insurance proceeds free of both income and estate taxes.\* In either case, the insurance policy will provide them with liquid funds to pay any income and estate taxes incurred as a result of inheriting the qualified plan or IRA.

## THE ROLE OF LIFE INSURANCE

Investing for the future and maximizing those savings may be more important today than ever. Many people use a qualified plan or an IRA as their primary vehicle to save for their retirement. And, while qualified plans and IRAs can be very efficient personal wealth accumulation tools, they are quite inefficient in transferring wealth to your children and grandchildren.

Life insurance can help you achieve your goal to have future generations enjoy as much as your wealth as possible. With the death benefit from a life insurance policy, your heirs can pay liabilities, such as state estate or inheritance taxes and income tax on inherited IRAs. This enables them to keep more of the value of the assets you’ve intended for them.

**You have worked hard to earn and accumulate assets. Take steps today to ensure you have a plan to effectively transfer those assets.**

\*Per IRC §101(a).

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