SunSolutions For Life

Stretch IRA

Financial Situation

Having worked hard and planned well for retirement, the accumulated funds of an IRA may not be needed to fund retirement, and the focus can be shifted to transferring wealth to heirs. When someone reaches the age of 70½, required minimum distributions must be taken even if not needed or wanted. Since an IRA is subject to estate and income taxes, the IRA could have less than half its value transferred to heirs after taxes. Here is an alternative plan to help transfer wealth.

Possible Solution

Consider a Stretch IRA, supplemented with life insurance, to transfer wealth, and offset tax consequences due on the IRA at the owner's death.

Strategy

Establish Irrevocable Life Insurance Trust (ILIT)

Prior to distributions, establish an ILIT. The trustee of the ILIT is the applicant, owner, and beneficiary of the life insurance policy on the life of the owner and/or spouse. Upon the death of the insured, the life insurance proceeds will pass through the ILIT to heirs, free of federal income and estate taxes.

Gifts, annual exclusions, unified credit[1]

Transfer IRA Net Required Minimum Distribution (RMD) to ILIT

At the time that RMD is taken, the net after income tax distribution is gifted to an irrevocable life insurance trust (ILIT) which may be subject to gift tax if the annual exclusion and/or the unified credit is exceeded.

Upon the death of the IRA owner, the spouse continues to receive RMD and continues to gift the after income tax proceeds to the ILIT.

When the spouse passes away, the children can continue to receive RMD, and the IRA can continue to grow (assuming the growth rate exceeds the amount of RMD based on the beneficiary's life expectancy).

Insurance Proceeds

ILIT funds could be used to offset estate and income taxes due on the IRA.

Results

The transfer of wealth to heirs is maximized and the IRA can continue to grow. With additional planning, the IRA can provide an income stream to heirs for succeeding generations.

[1]In order for gifts to the ILIT to qualify for the annual exclusion, the trust beneficiaries should be given "Crummey" rights of withdrawal over the gift. In 2005, the annual exclusion gift amount is $11,000 and the unified credit amount is $1,500,000 per person at death; $1,000,000 lifetime gift.

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Benefits of the Stretch IRA Plan

Maximize Transfer of Wealth

Upon death, the life insurance proceeds will pass through the ILIT to the heirs free of income and estate taxes assuming no transfer for value has been made or that the insured has no incidents of ownership in the policy.

Maintain IRA Value

The life insurance coverage enables the IRA to maintain its value because the death benefit can be used to offset income and estate taxes due on the IRA.

Greater Lifetime Income to Heirs

The heirs will then be entitled to a lifetime of greater income without depleting the IRA. With proper planning succeeding generations may also benefit from the IRA.

Strength and Security of Sun Life Financial

To help individuals, small businesses, and corporations plan for and achieve financial security, Sun Life Financial provides a diverse range of wealth accumulation and protection products and services. Tracing its roots back to 1865, Sun Life Financial and its partners today have operations in key markets worldwide.

Universal Life Insurance is issued by Sun Life Assurance Company of Canada. Futurity® Variable Universal Life Insurance is issued by Sun Life Assurance Company of Canada (U.S.) Wellesley Hills, MA 02481, and distributed through Sun Life Financial Distributors, Inc.

Notes:

Not insured by FDIC or any government agency. Not a deposit. No bank or bank affiliate guarantee. May lose value.

All guarantees are based on the claims-paying ability of Sun Life Assurance Company of Canada.