Five Minute Concept

Qualified Plan Maximization

Over the years, your clients have become financially successful with assets to generate retirement income. They may be thinking of taking only the minimum distributions required from their existing Individual Retirement Accounts (IRA) or qualified plan accounts in order to maintain the income tax deferral on the balance— hoping to transfer more to their heirs.

However, they don't know that additional income and transfer taxes may apply to IRAs and qualified plan funds if they are held until death. When these type of accounts are left in a taxable estate:

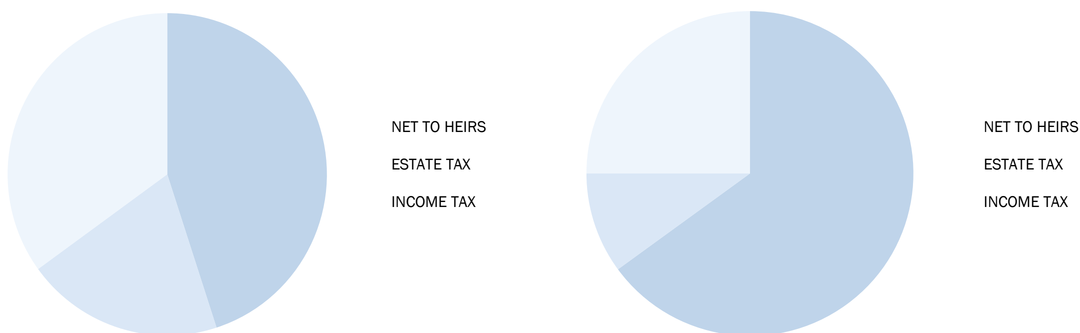
- Beneficiaries may pay income tax on the distribution and transfer of taxes
- The result could be double or triple tax
- There may be an unintentional transfer of a larger percentage of their assets to the IRS than to their heirs

The Solution:

By using an asset repositioning strategy in which your client's taxable assets are reduced or replaced with life insurance, they may be able to minimize or avoid the effects of these taxes. By taking more distributions from your clients' IRAs or qualified plan accounts, you can leverage these larger distributions outside of the estate by making annual gifts to an Irrevocable Life Insurance Trust (ILIT) that owns the life insurance policy. When this trust is properly drafted, the death proceeds will not be subject to income or transfer taxes. This planning approach helps balance your client's spending and wealth transfer objectives.

How It Works:

Your clients take annual distributions from their IRAs or qualified plan accounts to make gifts to an irrevocable trust funded with life insurance. Heirs will receive the life insurance proceeds free of income, estate and GST tax at death.*



**Transfer taxes refer to estate, gift and generational-skipping transfer taxes associated with assets that are transferred to others during lifetime or at death. The gift tax annual exclusion allows each individual to give up to $14,000 per year in 2017 (indexed annually for inflation and subject to specific rules) to an unlimited number of people without paying federal gift taxes. An attorney familiar with such matters should draft trust in order to take into account income and transfer tax laws (including estate and generational-skipping tax). Failure to do so could result in adverse tax treatment or trust proceeds.*

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