

# Legacy Max

Keep Wealth in the Right Hands





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# Accomplishments to be proud of...



Many people find that the two accomplishments they are most proud of are:

- Their families.
- Their financial savings.



# Life Accomplishments to be Proud of...



When you review your financial position, you may discover:

- Your Individual Retirement Account (IRA) and Deferred Annuity accumulations are significant.
- You have other assets accumulated for retirement.
- It is unlikely you will need to use all the funds you've accumulated in your IRA or Deferred Annuity.
- Your assets will likely be subject to federal estate taxes.

# Changing Financial Objectives



- Your estate planning goals may have shifted from accumulation to conservation.
- You may feel that you have enough retirement income for yourself and may want to leave a legacy for your children.
- Your Deferred Annuity and IRA may no longer meet your estate planning and wealth transfer goals.





## Traditional IRA

- Contributions may be partially or totally income tax deductible.
- Growth is income tax-deferred.
- Distributions are taxable as ordinary income.

## Deferred Annuity

- Contributions are from after-tax funds.
- Growth is income tax-deferred.
- Portion of annuity payment may be income tax-free return of contributions.
- Annuitization can provide a predictable income for the rest of your life.

# The Trap for the Unwary: Taxes



What happens to your hard earned IRA and Deferred Annuity funds at your death?

- Taxes may take a substantial cut — possibly up to 65%!\*  
■ Your loved ones get what's left.



\*Assumes maximum estate tax rate of 45% and 35% income tax rate.

# Trap for the Unwary: Taxes



Traditional IRAs and Deferred Annuities can be efficient vehicles to accumulate money...

but...

They can be tax “guzzlers” when it comes to passing wealth to your loved ones.



# IRAs and Deferred Annuities



Your IRA\* or Deferred Annuity may face significant taxes at death:

- Federal Estate taxes — up to 45% tax rate in 2008-2009.
- Federal Income taxes — beneficiary's highest tax rate (35%).
- Federal Generation Skipping Transfer Tax — A flat 45% tax rate\* in 2008-2009 (equal to highest marginal estate tax rate).
- State estate/inheritance or income taxes.

\* The account would qualify for the marital deduction if a surviving spouse (or a qualifying QTIP) is the beneficiary.

\*\*The Economic Growth and Tax Relief Reconciliation Act of 2001 Reduces and eventually repeals estate and generation-skipping transfer taxes in 2010. However, this Act expires at the end of 2010 and the repealed taxes go back to pre-Act levels in 2011, unless new legislation continues the estate tax repeal.

# Think About It!



- Do you want to preserve the value of your unneeded IRAs and Deferred Annuities for loved ones?
- Would you like to protect the value of any IRAs and Deferred Annuities you may decide to pass along at your death?
- Do you want to maximize the legacy you leave to your loved ones and minimize taxes paid to the IRS?



# A Hypothetical Example



- Ron is 65. His net worth is about \$3M today.
- Included in Ron's net worth — an IRA current value of \$500,000.
- Ron believes he will not need to use his IRA assets to meet his retirement expenses.



This example is hypothetical and is not intended to represent the performance of any specific product.

# Ron's Legacy



## If Ron keeps the current IRA:

Gross Estate Value at Age 85  
(includes IRA) \$6,000,000

IRA Value \$1,000,000

Estate Tax attributed to  
IRA (45% Estate Tax rate)\* \$ 450,000

Income Tax (IRD) on IRA \$ 159,000  
(30% Income Tax rate)

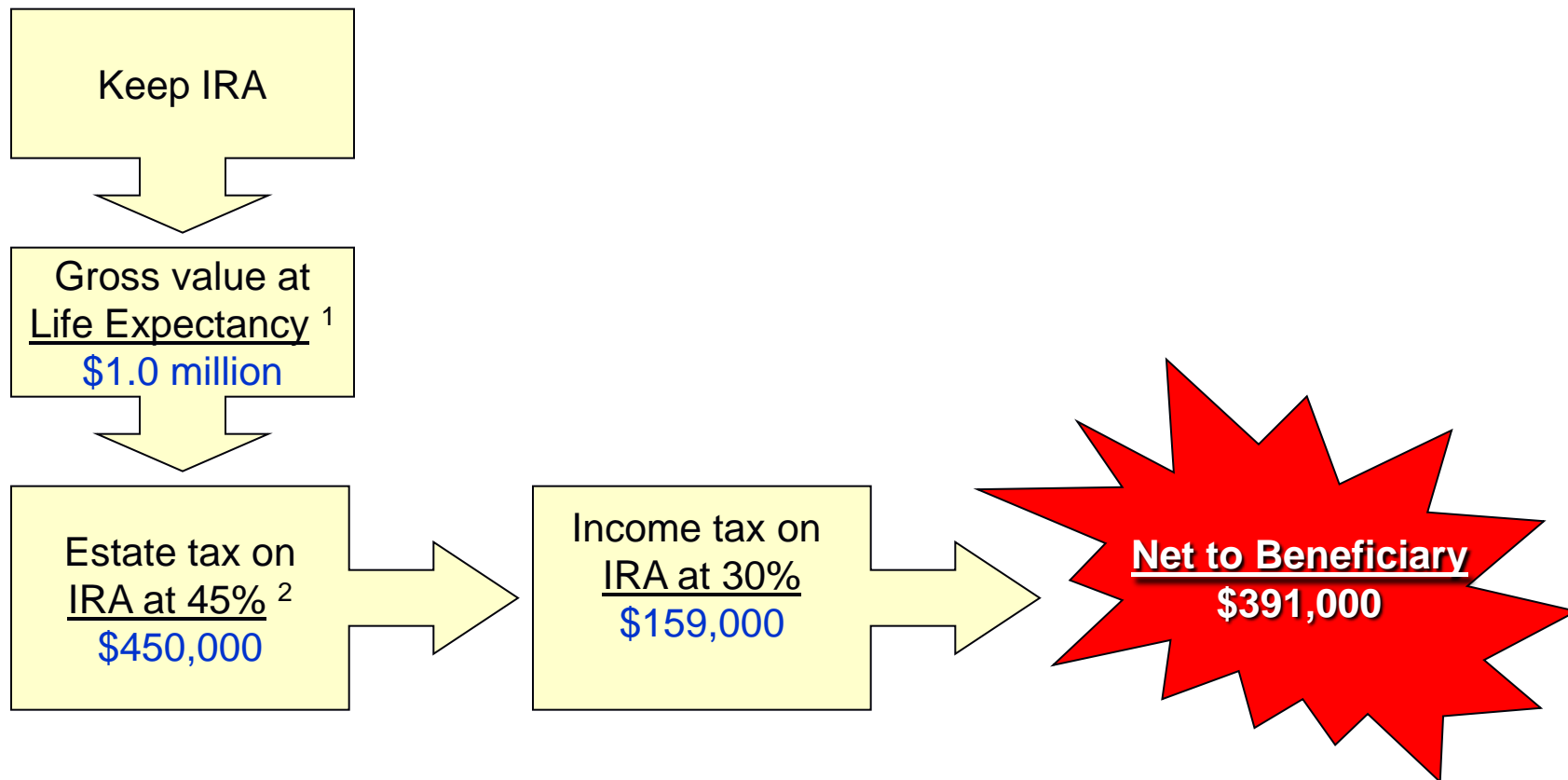
**Net IRA to Beneficiary \$ 391,000**



Assumes that beneficiary will receive the net IRA value (i.e., other estate assets are not used to pay estate taxes). An itemized deduction is allowed for estate and/or generation-skipping transfer taxes paid on the IRD item. This is not taken into account in this illustration. \* Assumes Economic Growth and Tax Relief in Dec. 2010 Reconciliation Act of 2001 changes "sunset" or expire as presently mandated.

This illustration is for illustrative purposes only.

# Erosion of Ron's Legacy



<sup>1</sup> Assumes life expectancy is 20 years.

<sup>2</sup> Economic Growth and Tax Relief Reconciliation Act of 2001 changes expire in December 2010.

This illustration is for illustrative purposes only.

# Ron's Legacy



Of the IRA's Value at age 85 of  
\$1,000,000:

- Only \$391,000 goes to his beneficiary.
- The rest goes to IRS (estate taxes and income taxes).

*This is about a 61% reduction in the asset... but it could get worse...*



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# Ron's Legacy



Of the \$1,000,000 IRA, if the beneficiary is a grandchild, the transfer may be subject to **45% Generation-Skipping Transfer Tax**, thereby further reducing the total Ron passes on to his beneficiary.



Assumes Economic Growth and Tax Relief Reconciliation Act of 2001 changes expire in 2010.

This illustration is for illustrative purposes only.

# What Can You Do?



The Legacy Max strategy... a better alternative to help:

- Preserve the value of your unneeded IRAs and Deferred Annuities for your loved ones!
- Limit the taxes on your hard-earned IRAs and Deferred Annuities!
- Leave a greater legacy to your loved ones!

The Legacy Max strategy is a wealth transfer strategy:

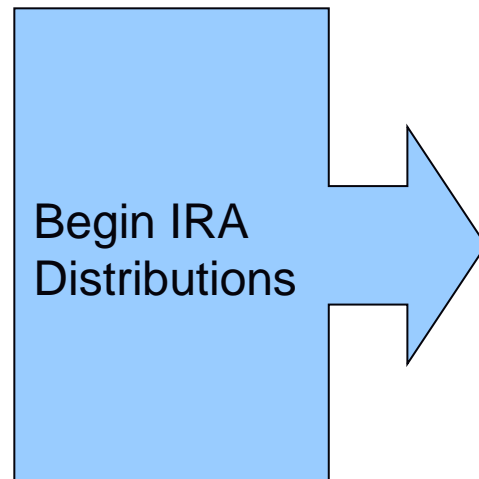
- The value of your unneeded IRA or Deferred Annuity may pass income tax free to your loved ones.
- If properly structured, you may be able to pass this value – free of estate and generation-skipping transfer taxes.

*Consider a hypothetical example...*

There are four steps in the Legacy Max strategy:

1. Ron uses his IRA or Deferred Annuity to create a payment stream.
2. He pays income taxes on IRA/annuity distributions.
3. Ron establishes an irrevocable life insurance trust (ILIT) and gifts the after-tax distribution to the ILIT.
4. The trustee of Ron's ILIT uses the gifts to purchase a life insurance policy (insuring either Ron or Ron and his spouse). The policy death benefits should equal or exceed the IRA/annuity's original value.

## Step 1: Create A Payment Stream



Take direct distributions from the IRA\* options include:

- Lump sum distribution.
- Elect to annuitize the IRA.
- Elect to annuitize the IRA and purchase a SPIA (single premium immediate annuity) in the IRA.
- Lump sum distribution and purchase a SPIA with after-tax proceeds.

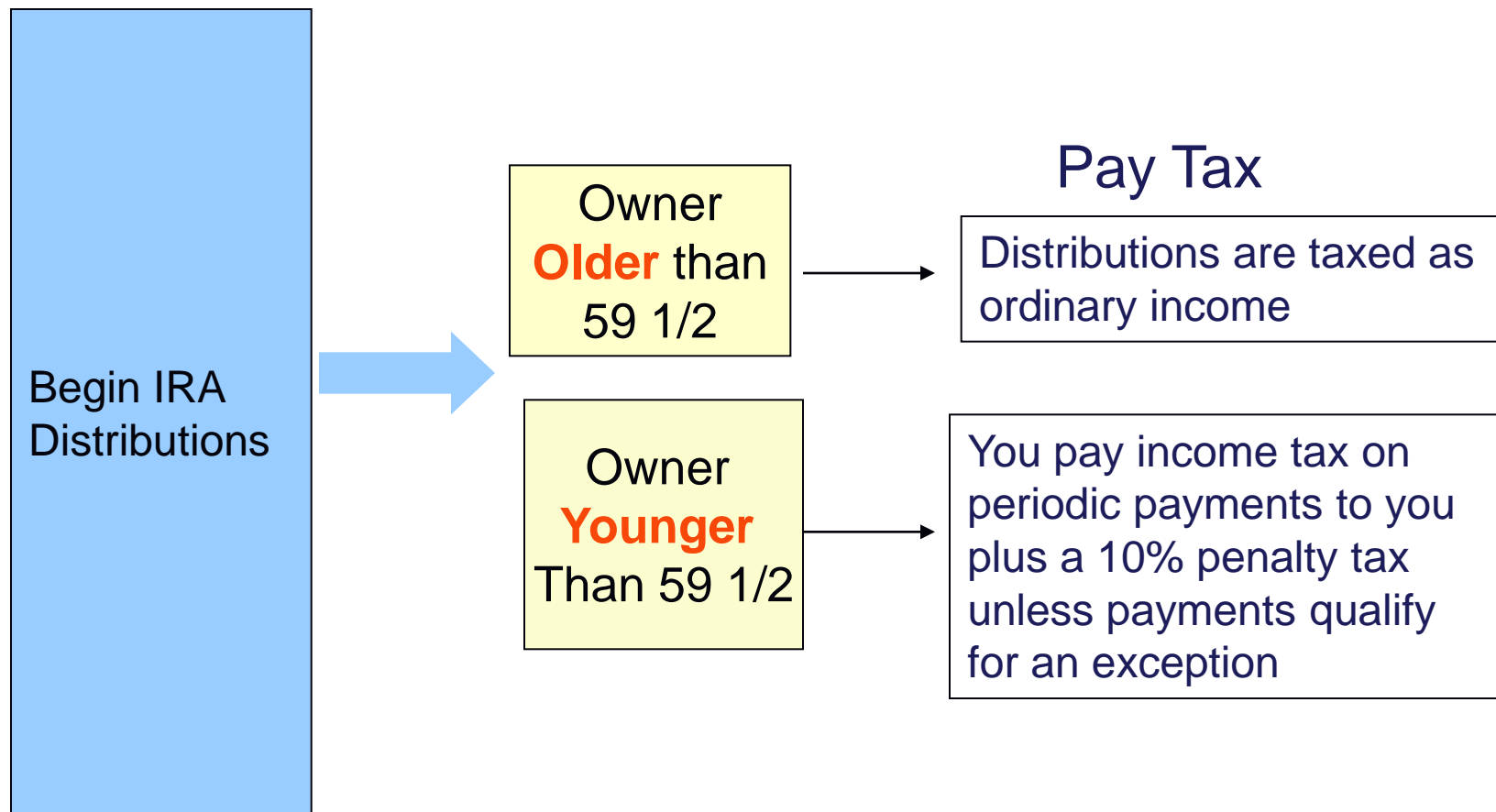
\*Distributions prior to age 59 1/2 will trigger a 10% penalty tax unless an exception applies; owner may qualify for the substantially equal periodic payment (SEPP) exception to the penalty tax.

# Why A SPIA May Be Worth Considering



- A SPIA can provide contractually guaranteed payments that the owner may use to make gifts to the ILIT.
- SPIA “distribution” may coordinate with gift tax exclusions where gifted to third party (Trust, etc.)
- Convenient method to leverage capital for estate planning purposes.
- If SPIA payments end at the owner’s death, there will not be any remaining asset to tax in the owner’s estate.
- If retirement asset is a Deferred Annuity instead of an IRA, the annuity owner may choose annuitization or an income tax free exchange to a SPIA under code Section 1035.

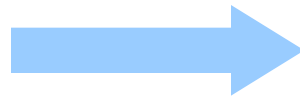
## Step 2: Pay Income Taxes on the Payment Stream



## Step 3: Establish an Irrevocable Trust & Gift What Remains After Income Taxes



Ron establishes an Irrevocable Life Insurance Trust (ILIT) with his daughter as the beneficiary to keep the insurance out of his estate. He gifts what remains of his IRA distribution to the trust.



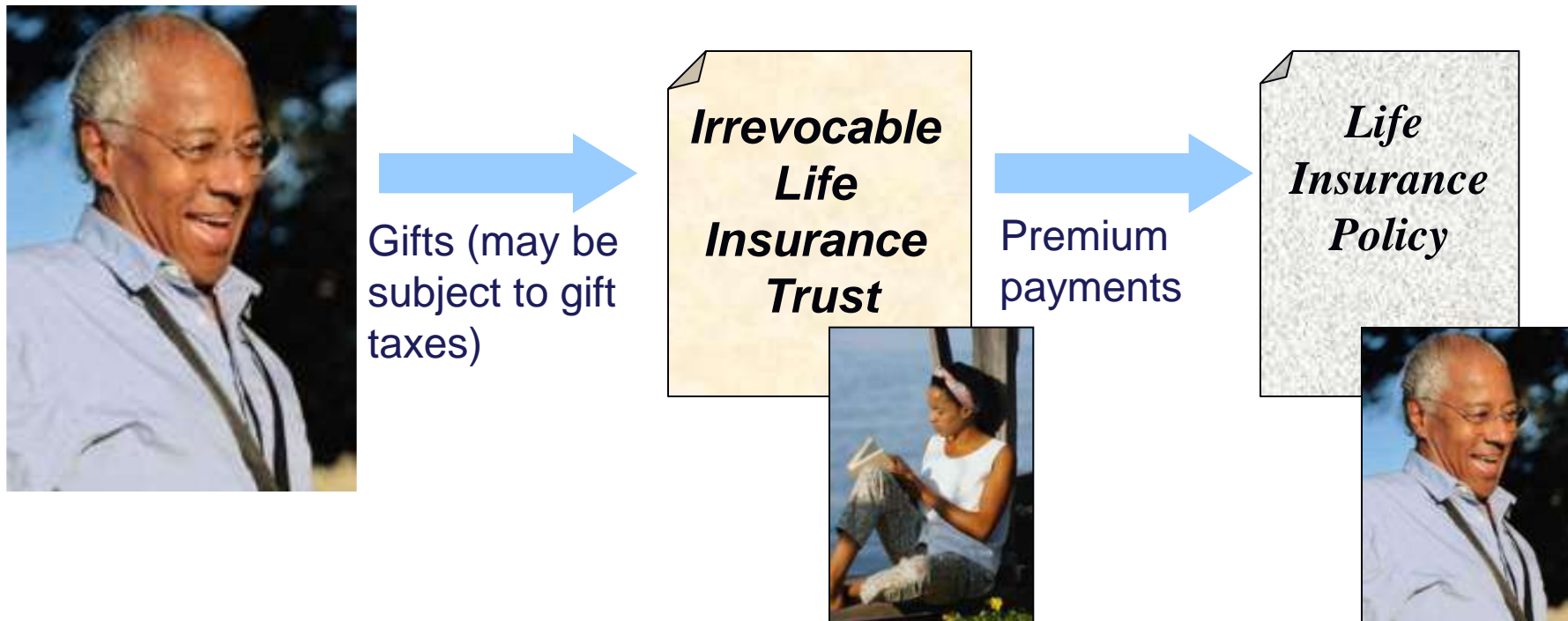
***Irrevocable  
Life  
Insurance  
Trust***



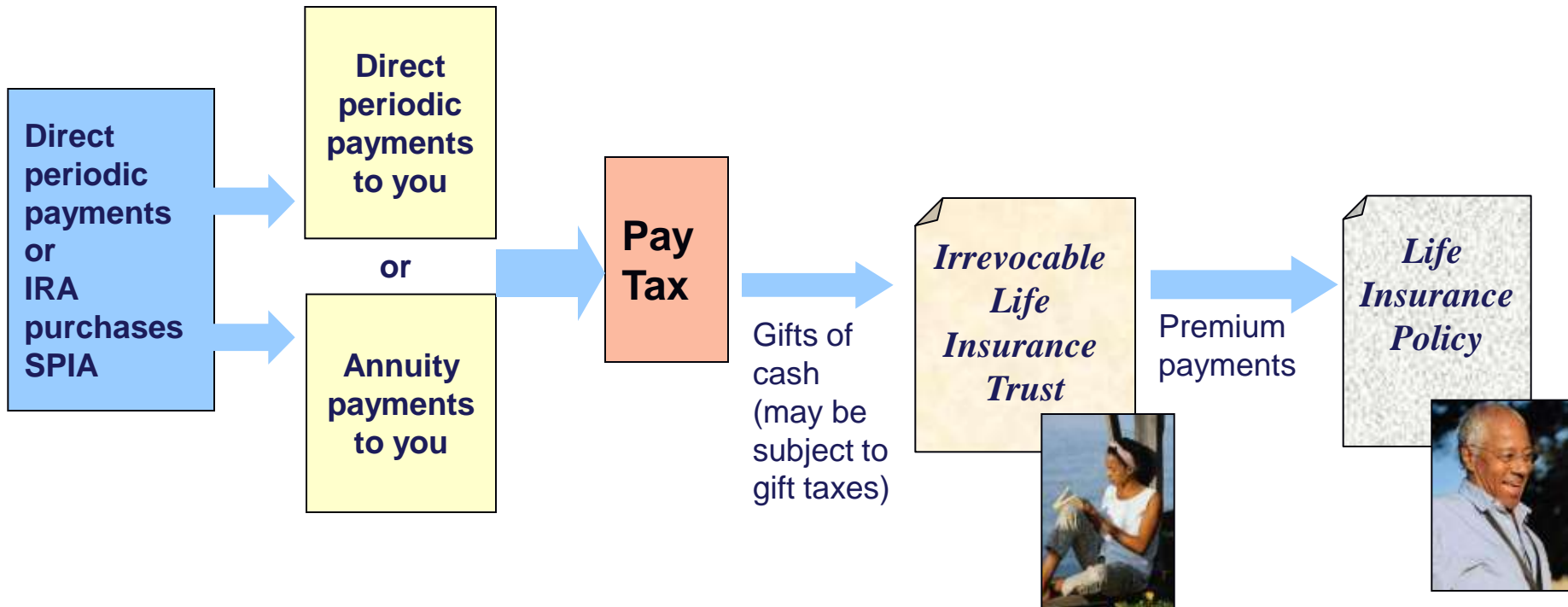
# Step 4: ILIT Trustee Purchases A Life Insurance Policy



- ILIT Trustee purchases a life insurance policy on Ron.
- Trustee uses the gifts to pay the policy premiums.



# The Legacy Max Strategy



# The Legacy Max Strategy



## **Step 1**

Create A  
Payment  
Stream

## **Step 2**

Pay Income  
Taxes On  
Distributions

## **Step 3**

Create An  
ILIT &  
Make Gifts

## **Step 4**

Trustee  
Buys A Life  
Insurance  
Policy



## Keep IRA Current Value (\$500,000)

|                                 |             |
|---------------------------------|-------------|
| Gross value at life expectancy* | \$1,000,000 |
| Estate Tax on IRA at 45%        | 450,000     |
| Income Tax on IRA at 30%**      | 159,000     |

**NET TO HEIRS \$ 391,000**

## Set Up ILIT to Purchase/Own Life Insurance Policy

|                                     |             |
|-------------------------------------|-------------|
| Gross value at life expectancy      | \$1,000,000 |
| Estate Tax on Life Insurance Policy | 0           |
| Income Tax on Life Insurance        | 0           |

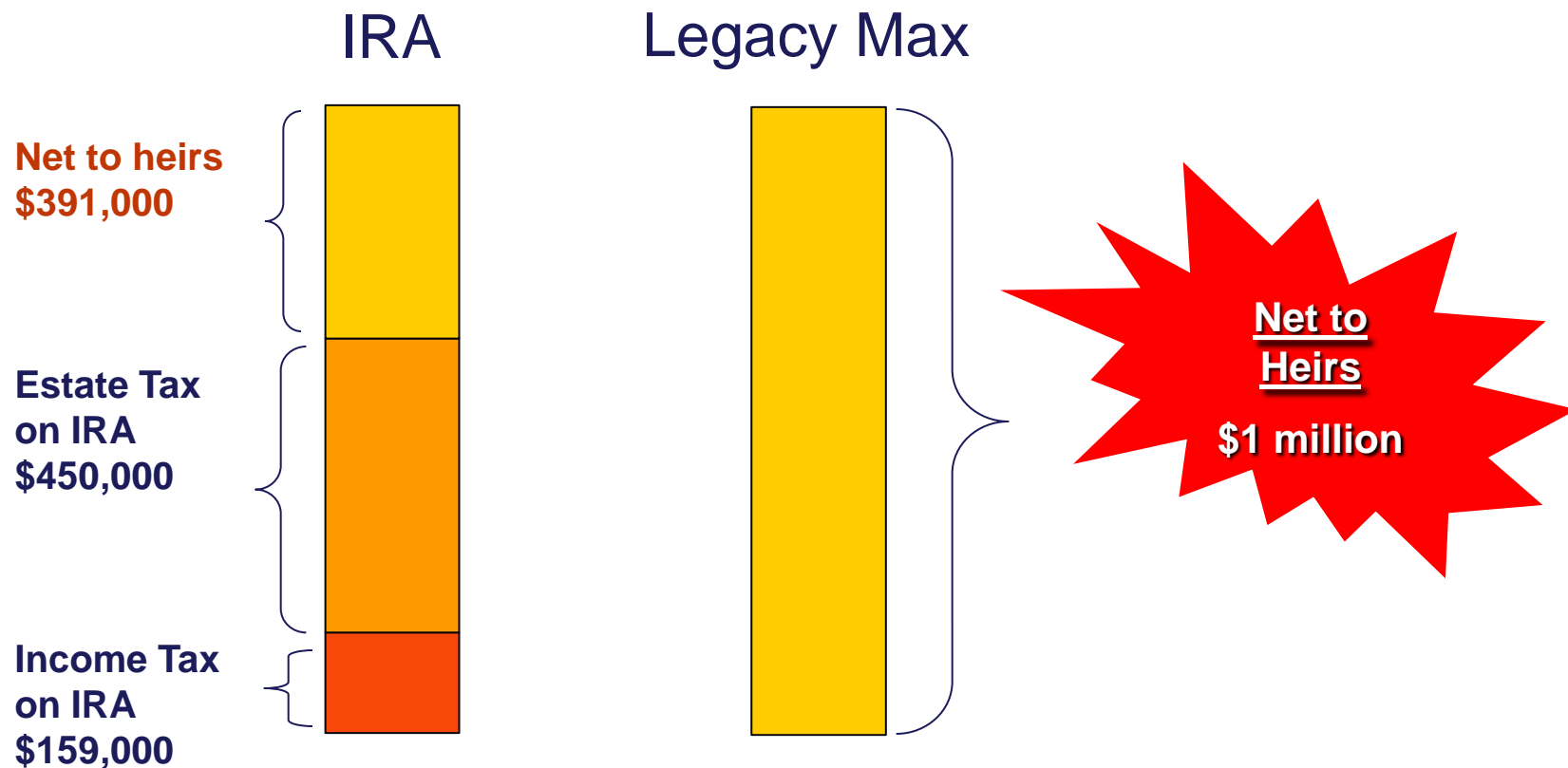
**NET TO HEIRS \$1,000,000**

\*Assumes life expectancy is 20 years.

\*\*An itemized deduction is allowed for estate and/or generation skipping transfer taxes paid on IRD item.

This illustration is for illustrative purposes only.

# What Did Legacy Max Do?



An itemized deduction is allowed for estate and/or generation skipping transfer taxes paid on IRD item. Assumes life expectancy is 20 years). Assumes estate tax rate = 45%. Assumes beneficiary tax rate = 30%.

This illustration is for illustrative purposes only.

# At Ron's Death



- \$1,000,000 life insurance death benefit paid to the ILIT that benefits Ron's beneficiary... *free from estate and income tax.*
- If Ron is married, a life insurance policy can be purchased that insures both spouses and pays the death benefit at the second death.

This illustration is for illustrative purposes only.

# The Legacy Max Strategy



- Helps preserve the value of your hard-earned IRAs and annuities!
- Helps maximize your legacy to your loved ones!



# Important Notes



- Not everyone will qualify for life insurance—applications evaluated based on current health conditions. Be sure to establish insurability before initiating any transactions.
- Neither the insurance companies comprising ING nor their agents give tax or legal advice. For complete details regarding your individual situation consult with your financial, tax and legal advisors.
- This presentation is hypothetical and is not intended to represent the performance of any specific product.

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