

How to Protect IRA and Pension Plan Assets

You may have originally started an IRA or Pension Plan to provide for retirement income and to save on taxes. When you retire, you may well find that you will not need these assets for income purposes.

If so, less than 36% of these assets may reach your children and grandchildren because of the ravages of double and even triple taxation. At your death, your estate will have to pay estate taxes and your heir will have to pay income taxes on your IRA or Pension Plan proceeds. If you have \$1 million in your IRA, it is likely that income and estate taxes will reduce this to under \$357,500 before it reaches your family. This is a staggering loss.

If you do not need the income from the IRA or Pension Plan to live on, you can terminate your IRA or Pension Plan and pay income tax now on the distribution. On \$1 million, a tax of \$350,000 would be assessed (assuming a 35% Federal income tax bracket and no state income tax).

The remaining \$650,000 could be transferred to an irrevocable trust, which would purchase a life insurance policy worth \$3 million (based on a second to die policy, current assumptions and average age of 70) for you and your spouse. The irrevocable trust and life insurance policy transformed a \$1 million pension into \$3 million, income and estate tax free – the same \$1 million which would have been reduced to less than \$345,000 after income and estate taxes.

If you kept your IRA or pension plan, it would have to appreciate to approximately \$9 million to produce the same return of \$3 million after income and estate tax. The chart below illustrates how the \$1 million IRA can be arranged to produce these results. It all boils down to this: If you don't need the income or principal from your IRA, why would you leave your children less than 36 cents on the dollar when you could leave them \$3 million or more, income and estate tax free?

The alternative to terminating your plan and leveraging it into a one-pay insurance policy would be to withdraw the income from the plan and, after paying income tax on the withdrawals, purchase a "minimum" annual-pay insurance policy. For example, a 70 year old couple could withdraw the interest, at 6%, from their \$1 million IRA. After paying income taxes on the withdrawals, they would have enough left over to cover the premium payments on \$2 million of insurance. If they need the income from their plan, they could terminate the payment of premiums, keep the income and reduce the insurance to a smaller "paid-up" policy. Or they could keep the insurance in force and withdraw capital from principal as needed.

All figures are based on current assumptions, last to die life insurance and will vary according to age and medical profile and according to which insurance companies are selected.