Keep Wealth in the Right Hands

Legacy Max℠
A simple yet effective strategy using life insurance

These materials are not intended to be used to avoid tax penalties, and were prepared to support the promotion or marketing of the matter addressed in this document. The taxpayer should seek advice from an independent tax advisor.

ING

You've worked hard for this day: the day you RETIRE. With careful financial planning and sound investment choices, you've built a nest egg that should last you through your retirement. You can look forward to the coming years with confidence.

As you fine-tune your retirement planning, you may discover that you've accumulated more than you need. If this is the case, you probably want to pass your excess wealth on to your children and grandchildren.

The Price of Success

But if your extra funds are in a tax deferred savings vehicles like a traditional IRA or a non-qualified annuity, the IRS has a surprise for you. It may seek to impose three separate taxes on these funds before you can pass them along.

Income Tax – Your beneficiary will eventually pay the taxes you deferred during your lifetime. Those taxes could be at their highest marginal tax rate.

Estate Tax – Upon your death, your entire estate, including any deferred annuities or traditional IRAs may be subject to significant estate tax. For example, it may be taxed at a maximum rate of 47% in 2005, 46% in 2006.

Generation Skipping Tax – If your grandchildren are beneficiaries of your IRA or annuity, they may be subject to a generation skipping transfer tax, a flat rate imposed at the maximum estate tax rate (47% in 2005), in addition to income and estate taxes.

This adds up to a total tax liability that could significantly reduce the value of your annuities and IRAs that are passed on to your children and grandchildren. With careful planning, it may be possible to minimize your tax liability and pass along a greater legacy.

A Solution

If you have funds in your IRA or annuity that you don't anticipate needing for retirement income, the Legacy Max strategy may be just what you need.

Legacy Max is an asset-protection strategy using life insurance from ING life insurance companies. It helps protect your hard-earned dollars by maximizing the amount of assets transferred to younger family members. The Legacy Max strategy involves taking distributions from your traditional IRA or annuity, paying income tax on the distributions, and contributing the balance to a life insurance policy.

Life insurance is used because it enjoys unique income tax treatment. Your policy's death benefits are generally income tax free. If the life insurance is owned properly, it may also avoid estate taxes. These death benefits may help your loved ones:

- Pay for a college education
- Make a down payment on a home
- Enjoy the assets you have worked so hard to accumulate

With Legacy Max, you can help **maximize** the legacy you leave for your family and potentially **minimize** what you pay to the IRS.

Steps to Significant Tax Savings

Legacy Max works in a few easy steps.

1 Step One: Create a payment stream from your traditional IRA. If you are under age 59½, you may wish to take substantially equal periodic distributions to avoid the 10% penalty. If you are over 59½ distributions can be annuitized. If your savings have accumulated in a deferred annuity, annuitization using a life-only income stream could be used to avoid estate taxes because all payments cease at the annuitant's death.

2 Step Two: Pay income taxes on the distribution received. Distributions from traditional IRAs are generally subject to income taxes on the full payment amount.

Distributions from non-qualified annuities will be taxed on a portion of each annuity payment. Current law defines part of each payment as return of principal. Only the interest portion of each payment from a non-qualified annuity is taxable. This treatment continues until your entire principal has been received, at which point the annuity payments are fully taxable. Annuity payments from IRA's and qualified annuities before you are 59 ½ may be subject to a 10% IRS penalty tax.

3 Step Three: Set up an irrevocable life insurance trust (ILIT) to purchase and own a life insurance policy on your life. Use the after tax annuity payments or IRA distributions to make gifts to the ILIT. These regular contributions to the ILIT are considered taxable gifts, but may qualify for the gift tax annual exclusion when properly structured.

4 Step Four: The Trustee of the ILIT purchases the life insurance policy on the IRA owner. The trust is the owner and beneficiary. The policy death benefit will equal the value of your traditional IRA or annuity. The gifts made to the trust are used by the Trustee to pay the annual policy premiums. If the trust is properly structured, there should be no estate or generation skipping tax on the proceeds. The income and estate tax-free proceeds may help your family save significant money on taxes at your death.

Note: Since the Legacy Max concept is primarily suitable for individuals at or near retirement age, insurability can be an issue and should be determined prior to initiating any transactions with your existing IRA or annuity. When qualifying for life insurance, the cost, based on underwriting results, can be a factor in determining whether this is a viable scenario.

Legacy Max, a strategy brought to you by ING's life companies, makes it easier to keep wealth in the right hands.

Legacy Max℠ at Work

Let's look at a hypothetical situation that shows how Legacy Max can work.

Ron Lawrence is 65 years old, single and has three children. Ron has managed to accumulate significant assets through the years, including $500,000 in a traditional IRA. He feels he can live comfortably and will be able to meet all of his expenses without accessing his IRA balance. Ron would like to pass the IRA to his three children at his death.

Ron has at least two options: (1) keep his IRA as it is now, and pass it to his children at his death by naming them as beneficiaries, or (2) adopt the Legacy Max strategy with the potential of passing a greater amount to his three children.

Create a Legacy

The benefits of your hard work should continue to be enjoyed by you and your loved ones. Legacy Max is a wealth transfer strategy that may allow the value of your unneeded IRA or deferred annuity to pass to heirs/beneficiaries. And, if properly structured, the same value and benefits may avoid estate and generation-skipping transfer taxes. A financial plan that includes the Legacy Max strategy can give you peace of mind that you have taken a positive step toward providing for your family.

[1] Assumes life expectancy is 20 years – Assumes rate of return on IRA equals 4% with no distributions.

[2] Assumes estate tax rate = 50% per EGTRRA

[3] Assumes beneficiary income tax rate = 30%

[4] Assumes properly structured irrevocable trust to keep death benefits estate tax free

Current Value of Traditional IRA

$500,000

Keep IRA	Set up irrevocable trust to purchase life insurance
	Distributions from IRA
	Pay income-tax on distributions – net after tax amount given to irrevocable trust.
Gross Value at Life Expectancy[1] (Assumes 4% growth)	Life Insurance Policy Death Benefit[1]
$1,000,000	**$1,000,000**
Estate Tax on IRA[2]	Estate Tax on Life Insurance Death Benefit[4]
$500,000	**$0**
Income Tax on IRA[3]	Income Tax on Life Insurance Death Benefit
$150,000	**$0**
Net to Heirs	Net to Heirs
$350,000	**$1,000,000**

Potential difference in amount passing to your heirs using Legacy Max

(This scenario is hypothetical and assumes no fees & costs which would occur in implementing this strategy)

$650,000

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