



FINANCIAL PLANNING UPON THE DEATH OF A SERVICE MEMBER

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A very important, but little utilized provision, of The Heroes Earnings Assistance and Relief Tax Act of 2008 (The HEART Act) permits surviving spouses and heirs who receive death gratuities (paid as a result of a death from a service connected illness or injury) and/or SGLI death benefits to invest some or all of the funds into a Roth IRA and/or Coverdell Education Savings Account (ESA). The beneficiary can split the payouts received between the ESA and Roth IRA as they see fit, contributing a portion, all, or nothing to each. Alternatively, they can reserve an amount for immediate expenses.

The contribution and annual income limitations will not apply to this rollover of funds and will provide tax-free growth and withdrawals in the future. The only limitation is that the funds must be deposited into a new or existing ESA or Roth IRA within one (1) year of the beneficiary receiving them, otherwise they forfeit the opportunity to do so. It is important to note that a separate one-year deadline applies to each benefit received.

As with all Roth IRA contributions, the funds may be utilized at any time within the Roth IRA but will be subject to income tax, if removed before the account is five years old, and a 10% early distribution penalty, if under the age of 59½. Distributions from Coverdell ESAs are similarly tax-free to the extent that such funds are used for the beneficiary's qualified education expenses. Distributions that are not used for qualified education expenses are subject to penalties and taxation similar to those for qualified retirement plans.