



How to Maximize the Legacy You Gift to Your Heirs

Financial advisors view your estate as having two ledgers, one that is taxable and the other that is non-taxable. Using these two ledgers, a plan is implemented to save and protect our client's fortune.

For Many wealthier clients, this strategy is implemented when the client does not need a portion of his retirement money for future income and wishes to gift this portion to heirs. Distributions must be taken from retirement accounts in most cases by age 70 1/2 and are taxed by the owner's tax bracket at that time.

This strategy can create larger tax-free gifts to descendants and may double or triple the inheritance gifts to their family or others, while the annuity owner still maintains access to the annuity values, while also reducing estate and inheritance taxes. The technique is a method of redistributing assets to create less taxation for both yourself in retirement and for heirs.

This is how it works...

1. As an annuity owner, you gift a portion of the after-tax distribution from the annuity to an Irrevocable living trust (ILIT).
2. The annuity distribution is taxed to the recipient first and then gifted to the Irrevocable Life Insurance Trust (ILIT). Distributions from your retirement plan in excess of premiums you wish to gift, may still be used to pay living expenses, while reducing the taxable estate to heirs.
3. The trustee of the ILIT uses the annual distribution to purchase a life insurance policy on the annuity owner or the annuity owner and spouse naming the ILIT as owner and beneficiary. The Gift tax may be reduced or eliminated by using any available unified credit or annual exclusion amounts.

4. At the annuity owner's or annuity owner's and spouse's death, life insurance proceeds pass income and estate tax free to the ILIT.
5. ILIT beneficiaries, per the trust's terms, receive the trust assets. In addition, any remaining annuity proceeds held outside of the ILIT will pass to the heirs after any income and estate taxes have been paid.

The life insurance policy purchased is based on the insured's age, sex and health status. Since those who wish to employ this strategy are normally at or near retirement ages, there are Life insurance carriers who specialize in writing those who are older. Underwriting with one these carriers is sometimes less restrictive. It pays to work with a retirement specialist as they work specifically with these life companies.

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