RiverSource Insurance

Income in respect of a decedent (IRD) **Insurance Strategy**

Helping you **control and preserve** your legacy

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Ameriprise Financial *Confident Retirement*® approach

The Ameriprise Financial *Confident Retirement*® approach breaks retirement planning down into doable steps to take the uncertainty out of facing your future. Your financial advisor can offer practical advice and solutions to cover your essential expenses, **ensure your lifestyle**, prepare for the unexpected and leave a legacy.

Taking advantage of the market's growth opportunities and protecting your loved ones are both important aspects of financial security and stability. Variable universal life insurance enables you to do both, helping you feel more confident today and in retirement.

You’ve been making smart financial decisions to grow and protect your assets; the last thing you want is to lose control of all you’ve worked for when those assets pass to your heirs.

Because of how certain assets pass to your heirs, they could lose almost a third[1] of an inherited asset’s value to income taxes. The reason is, the IRS collects taxes on income that was designated for you (but that you didn’t receive), called “income in respect of a decedent,” or IRD.

A strategy using a properly structured life insurance policy helps you **retain control** over your assets and **provides more choice** in what you do with your assets. It lets you:

Instead, what if you could:

Create
more opportunities

Define the amount you pass on. You can maintain control over the amount you leave to family, a social cause, even the IRS.

Make
a difference

Replace the value of your assets. You can help your beneficiaries, who inherit the tax burden of your assets, by creating an income tax-free asset to replace the amount they’ll have to pay in taxes.

Do
more for others

Determine where your money goes. In addition to passing on an income tax-free death benefit to your heirs, you can gift some or all of the tax-deferred (IRD) assets[2] to a qualifying charity.

Before you purchase life insurance be sure to ask your financial advisor about the policy’s features, benefits and fees, and whether it is appropriate for you, based upon your financial situation and objectives.

[1]Depending on their tax bracket and state of residence.

[2]Though not a real asset class, the term “IRD assets,” is used here and throughout for convenience sake to refer to assets that are subject to income in respect of a decedent (IRD).

Help control and preserve your legacy with an effective IRD strategy

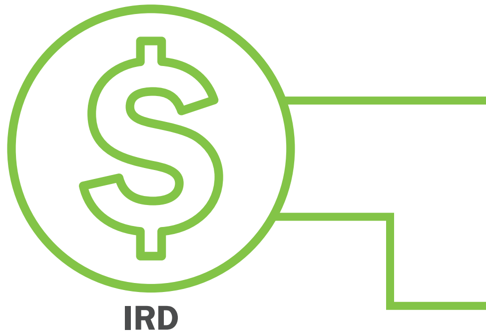
Leaving more to heirs and/or a charitable cause, while reducing or eliminating what you leave to the IRS, is possible through a strategy using life insurance. While this strategy requires that you spend money to purchase a life insurance policy, it can help you pass on more to your heirs by allowing you to take advantage of beneficial tax rules.

Following are illustrations of what your current situation might look like **without a strategy,** along with two options for **making a difference** and **doing more**:

Option 1:

No strategy, but an "unexpected heir"

While your heirs will receive a significant portion of your large IRD assets (e.g., Traditional IRAs, 401(k)s, etc.), what may come as a surprise is that the IRS could also be a significant "beneficiary" of these same assets – perhaps benefiting to a greater degree than you would think.



Option 2:

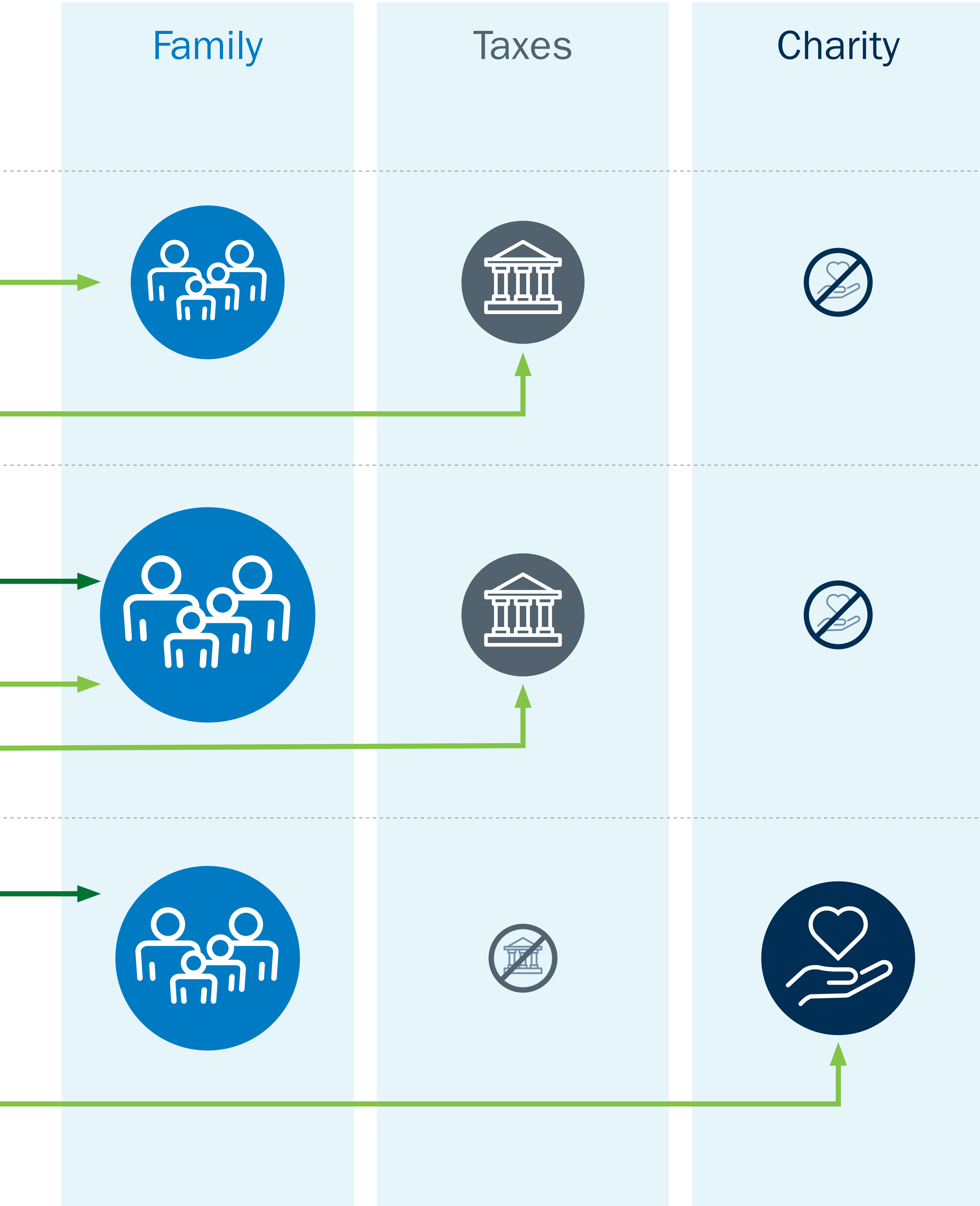
Making a difference for those who matter

To reduce the impact of income taxes for your heirs, distributions from IRD assets can be used to pay premiums on a life insurance policy. While you will pay some taxes on these distributions during your lifetime, the life insurance death benefit passes to heirs income tax-free and can help cover taxes owed when your heirs take withdrawals from the IRD assets.

Option 3:

Doing more

Another option you have is to purchase life insurance, as noted in option 2, and name a qualifying charity as the beneficiary on your IRD asset(s). Again, while you will pay some taxes on the distributions used to fund your life insurance premiums, your heirs receive an income tax-free death benefit from the life insurance, the charity receives some or all of your IRD assets — income tax-free — and you partially, or fully, 'disinherit' the IRS.


Family
Taxes
Charity

Answers to questions you might have

What is "income in respect of a decedent," or IRD?

IRD is income that was originally taxable to you—but that you didn't receive while alive—and on which income taxes have not been collected. It includes but is not limited to IRAs, 401(k)s, pension plans, U.S. savings bonds and accounts receivable. IRD assets that grow tax-deferred may have minimum distribution requirements (RMDs).

Why should I be concerned about IRD?

The consequences associated with passing on IRD assets do not affect you directly, but affect your beneficiaries. The IRS passes the income tax burden on these assets to them. Whether they take it as a lump sum or a series of payments, some beneficiaries must deplete inherited qualified plan assets within 10 years. Income taxation on IRD assets, together with other potential taxes (e.g., estate, generation-skipping transfer, state estate and inheritance tax) could deplete a significant portion of the financial benefit you had intended to pass on to your beneficiaries.

To illustrate, let's look at the hypothetical scenario of clients Keith (56) and Nicole (54): Let's assume Keith has a SIMPLE IRA to which he contributes $10,000 annually until age 65. Assuming a 6% hypothetical rate of return, by the time Keith is 85 the IRA is worth $1,048,673. Also assume that Nicole survives Keith and passes away at age 90. Since Nicole and Keith were required to withdraw $1,268,670 to meet RMD obligations, it is now worth $931,140. At Nicole's death, the children, Rose and Randy, each receive $316,587 after income taxes, and the IRS takes $297,965 in taxes.[3] In this situation, the IRS and state became Keith and Nicole's "unexpected heirs" and received almost as much as each child.

Which beneficiaries are required to deplete the inherited amount within 10 years?

Any beneficiary who is not a spouse, a minor child or a disabled person. Rules may vary for certain trusts. Consult your tax adviser about your specific situation.

Family	Charity	Taxes
$633,175 After tax legacy	$0	$297,965 Estimated taxes

What can I do to minimize the amount that goes to taxes?

A strategy using life insurance can help you minimize the amount of taxes that go to the IRS. Consider again our hypothetical scenario: Assume Keith and Nicole purchase a $1,000,000 life insurance policy; they withdraw $15,000 annually to pay $12,000 in annual premium.[4] With total distributions amounting to $1,212,148 ($15,000 per year to fund the life insurance policy along with RMDs) the IRA grows to approximately 13% less in value ($823,600 vs. $931,140). However, when Nicole passes away, the children now receive over $1.5 million after tax. With this strategy, they've reduced what goes to the IRS after death by $34,413[3] and provide an income tax-free source of funds for Rose and Randy to use however they like, including to pay income tax on IRD assets.

Family	Charity	Taxes
$1,560,048 After tax legacy + income tax-free death benefit	$0	$263,552 Estimated taxes

Is there any way to entirely eliminate income taxes on what passes to my heirs?

Yes. To illustrate, consider again Keith and Nicole: As before, Keith leverages a portion of his IRA distributions to purchase life insurance.[4] Now, however, he and Nicole name a favorite charity as a beneficiary on his IRA. Because current tax code allows qualifying charities to receive these assets tax-free, with this strategy, Rose and Randy each receive $500,000 income tax-free (half of the $1,000,000 life insurance benefit), the charity receives the IRA tax-free and the IRS is left with nothing!

Family	Charity	Taxes
$1,000,000 Income tax-free death benefit	$823,600 Tax-free gift	$0 Estimated taxes

[3] Assumes a 32% income tax rate for the beneficiaries.

[4] Assumes premiums are paid with cash before age 65 and with distributions from Keith's IRA after age 65; no pre-59½ 10% early withdrawal penalty; and Keith and Nicole pay taxes on the distributions from his IRA while they're alive.

Can't my children take distributions subject to income tax over time?

Beneficiaries of IRD assets can sometimes consider this option over taking distributions as a lump sum so that the taxation is spread out over time. While this helps control the level of additional income tax at the time of inheritance—which can create other considerations—many beneficiaries will need to deplete the entire inherited balance within 10 years, especially adult children who are in peak earning years when the assets are inherited. Distributions taken over time may still have consequences, such as putting the beneficiary into a higher tax bracket later on, or triggering phase outs for certain exemptions or tax credits in multiple years.

I worry about my children not being responsible with what they inherit. Is there anything I can do to control how they receive the money?

An advantage to using life insurance to help reduce taxation to beneficiaries on IRD assets is your ability to control how the policy benefit should be paid. In addition to lump sum payments, you can designate that your beneficiaries receive the benefit in these manners:

- A life time level payment,
- For a specified period of time, or
- As an interest payment for a specified period of time before paying out the balance of the benefit.

Alternatively, the beneficiary of the policy can be a trust, in which you can dictate the circumstances around which payments to the trust beneficiaries should occur.

Do I receive any other benefits by using some of my IRD assets, like RMDs, as premium for life insurance?

Additional benefits to repositioning RMDs into life insurance include:

- **Maintaining a tax-deferred position:** If RMDs from certain assets subject to IRD—such as Traditional IRAs and 401(k)s—are repositioned into taxable positions[5] (vs. the previous tax-deferred positions) any growth within the new assets may be taxable now or in the future when sales occur. Repositioning RMDs (or a portion of them) into life insurance allows the assets to continue to grow tax-deferred, and may allow for potential tax-free withdrawals.
- **Leverage:** Life insurance can be used to help leverage your assets, in that it creates a benefit that is multiple times the amount of the original asset used to purchase the policy (the premium). This larger benefit then generally passes income tax-free to heirs.
- **Flexibility:** Life insurance offers flexibility around ownership arrangements and beneficiary designations, making it a valuable addition to an overall financial portfolio.
- **Growth opportunity options within the policy:** Certain types of life insurance offer an opportunity to grow the policy's cash value and access that money later, for example, as supplemental retirement income. The policy's accumulated cash value can also reduce or eliminate the need to pay ongoing premiums out-of-pocket.
- **Lifetime guarantees against policy lapse:** Some insurance policies offer a lifetime guarantee against the policy lapsing, as long an adequate amount of premium is paid within a specific time frame and based upon a specified payment schedule.

All guarantees are based on the continued claims-paying ability of the issuing company.

What options do I have for funding a life insurance policy?

You can pay for life insurance with a one-time payment, a series of payments over a fixed time period, or over your lifetime. Some options include:

- Directing a portion of your current cash flow
- Using distributions from IRD assets earlier in retirement to minimize the growth on those assets and possibly decrease your RMDs later in retirement
- Using a portion of your RMDs if the annual amount you are required to take exceeds what you need to maintain your desired lifestyle in retirement

Keep in mind, funding life insurance as part of an IRD strategy may not be appropriate if:

- You will need your IRD assets as a primary source of income in retirement;
- Your IRD asset balance is small and you wouldn't have the cash flow to support ongoing premium payments into a policy; or,
- You don't plan to leave assets to others who would benefit from the additional potential transfer of wealth and/or flexibility.

Work with your financial advisor to determine which option(s), if any, are best for you based on your specific situation and financial goals.

How does the insurance policy's value affect my estate taxes?

If you and/or your spouse own the policy directly, the policy's death benefit can be included in your estate for the purposes of calculating any potential estate tax liability. In order to mitigate any adverse implications on your federal and/or your state estate taxes, work with your tax adviser; he or she can help you determine the best policy ownership option for your situation.

[5] The IRS requires individuals to begin taking RMDs at age 72.

Live confidently every day.

As a company with a long history of strength, stability and expertise, we're committed to serving your needs and interests. We offer a range of products and services that give you the flexibility you need and the stability you desire as you live for today, make plans for retirement and prepare for your personal legacy.

Accessing policy cash value through loans and surrenders may cause a permanent reduction of policy cash values and death benefit, and negate any guarantees against lapse. Surrender charges may apply to the policy and loans may be subject to interest charges. Although loans are generally not taxable, there may be tax consequences if the policy lapses, or is surrendered or exchanged with an outstanding loan. Taxable income could exceed the amount of proceeds actually available. Surrenders are generally taxable to the extent they exceed the remaining investment in the policy. If the policy is a modified endowment contract (MEC), pre-death distributions, including loans from the policy, are taxed on an income-first basis, and there may be a 10% federal income tax penalty for distributions of earnings prior to age 59½.

The *Confident Retirement* approach is not a guarantee of future financial results.

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