Dynasty IRA

Using Life Insurance

Using Required Minimum IRA Distributions to Increase Wealth to Heirs

PACIFIC LIFE

AD-OC-765B

Dynasty IRA
Using Life Insurance

YOUR IRA AS A WEALTH TRANSFER TOOL

You have an individual retirement account (IRA) and do not plan on using the IRA distributions for retirement planning. You wish to delay income taxes for as long as possible and take advantage of the tax-deferred growth that the IRA provides. Beginning at age 70½, however, the Internal Revenue Code[1] requires you to take minimum distributions every year. Additionally, the remaining IRA account balance is includable in your estate and subject to estate taxes.[2] Your heirs may be forced to take an income-taxable distribution from the IRA in order to pay the estate taxes.

The Dynasty IRA is a multi-generational strategy that is designed to provide maximum income tax deferral of your IRA while using life insurance to enhance your required minimum distributions. This strategy should be discussed with your legal and tax advisors to determine if it is appropriate given your overall financial and estate planning goals.

STRETCHING THE IRA TO BENEFIT MULTIPLE GENERATIONS

The Dynasty IRA is a simple yet powerful strategy for maximizing income tax deferral of your IRA. It involves stretching required minimum distributions over your life expectancy, your spouse's life expectancy, and ultimately, the life expectancy of your heirs.

During your lifetime, you delay any withdrawals from your IRA until the age of 70½, when you are required to take minimum distributions (which are based on the uniform lifetime table).[1] With the assistance of an attorney, you establish an irrevocable life insurance trust (ILIT) and transfer these taxable distributions to the ILIT. An ILIT is a trust that, if properly established and administered, should not be includible in your estate. Whether or not these transfers to the ILIT are subject to gift tax will depend on the availability of your annual exclusion gifts and/or lifetime gift tax exemption.[3] The ILIT trustee[4] will pay the premiums on a life insurance policy insuring you and/or your spouse.

At your death, your spouse will complete a rollover of your IRA to his or her own IRA. The combination of the IRA rollover and the unlimited marital deduction eliminates the estate tax of the IRA at your death. If you are not married, you can pass the IRA to someone other than your spouse, such as your children or grandchildren. You may, however, incur estate tax and possibly generation-skipping transfer (GST) tax.[2] If a single life policy was purchased, the life insurance death benefit proceeds would be paid to the ILIT upon your death.

During your spouse's life, he or she will take taxable distributions from the IRA over his or her lifetime using the uniform lifetime table. If a survivorship policy was purchased, your spouse will continue to fund the ILIT using the IRA distributions and the ILIT will continue to pay premiums on the life insurance policy. During your spouse's life or shortly after death, multiple IRAs may be established if you have more than one child, naming each of your children as beneficiary of each IRA.

Upon the death of your spouse, any remaining IRA assets will be included in the estate of your spouse and may be subject to estate taxes. The life insurance policy in the ILIT may provide the liquidity that may be needed for estate tax (and possibly GST tax).

If your children are named as beneficiaries of separate IRAs, they may elect to take minimum distributions over their remaining lifetime expectancies. This will allow each child to receive distributions based upon their own life expectancy. If all the children remain as beneficiaries of one IRA, only the life expectancy of the oldest child will be used for determining minimum distributions.

Your children also have the flexibility to take more than the minimum distribution if needed or to take a lump sum at any time. If, however, the children do not immediately need more income than the minimum distributions, the Dynasty IRA strategy may allow the IRA to continue to grow on a tax-deferred basis.

Dynasty IRA

During IRA Owner's Life

1. When IRA Owner turns 70½, he or she takes the required minimum distributions from his or her IRA.
2. The IRA Owner uses these taxable distributions to fund the ILIT, which he or she establishes with the assistance of an attorney, to pay premiums on a life insurance policy. Whether or not these transfers are subject to gift tax depends on the IRA Owner's ability to use annual exclusion gifts and/or lifetime gift tax exemption.
3. The trustee[4] of the ILIT will purchase a life insurance policy on the IRA Owner and/or his or her spouse. The ILIT will be the owner and beneficiary of the life insurance policy.

1 IRC Sec. 401(a)(9); Treas. Reg. Sec. 1.409(a)(9)-1, A-3(a).
2 According to the American Taxpayer Relief Act of 2012, the federal estate, gift and generation skipping transfer (GST) tax exemption amounts are all $5,000,000 (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%.
3 As of January 1, 2013, the annual gift tax exclusion is $14,000 per donee (indexed for inflation).
4 The trustee appointed should not be the insured or the insured's life insurance producer. A life insurance producer who is paid a commission on the sale of a life insurance policy represents both his or her personal interest and the interests of the trust, creating a conflict of interest.

Dynasty IRA

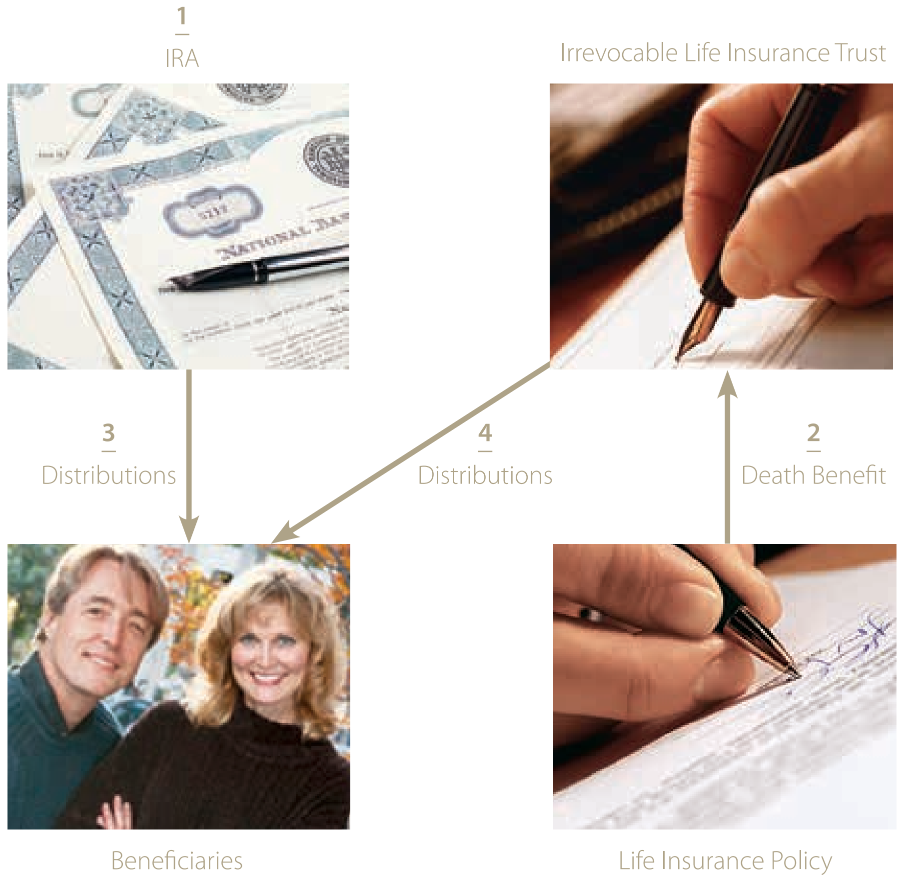
At IRA Owner's Death

1 Upon IRA Owner's death, the surviving spouse as IRA beneficiary, rolls the IRA over to his or her own IRA. The combination of the rollover and the unlimited marital deduction eliminates the estate tax[2] of the IRA at the IRA Owner's death. The spouse will receive distributions based on the uniform lifetime table. During the life of the surviving spouse or shortly after death, several IRAs may be established, if there is more than one child, naming each child as the beneficiary of each IRA.

2 If a survivorship life insurance policy was purchased, the surviving spouse continues to fund the ILIT using IRA distributions in order to pay the premiums on the life insurance policy. Whether or not these gifts are taxable depends on his or her ability to use annual exclusion gifts and/or lifetime gift tax exemption.[3]

Dynasty IRA

At Surviving Spouse's Death



1. Upon the death of the surviving spouse, the IRA is included in the surviving spouse's estate for estate tax purposes. The children may elect to take minimum distributions based upon each child's life expectancy.
2. The life insurance death benefit proceeds will be paid to the ILIT.
3. The remaining IRA balance is transferred to the beneficiaries and may be subject to estate taxation. The beneficiaries pay income tax upon receipt of distributions from the IRA.
4. The life insurance death benefit may provide the estate with the necessary liquidity to assist in paying any potential estate tax. Any remaining amounts in the ILIT should be distributed, pursuant to the terms of the ILIT, to the beneficiaries of the ILIT free from estate tax.

FEATURES OF DYNASTY IRA

- Continued income tax deferral of the IRA assets.
- Distributions from the IRA help the IRA Owner and his or her spouse to fund the ILIT to pay the premiums on the life insurance policy.
- Children are able to take distributions from the inherited IRA using their life expectancies.
- Life insurance death benefit proceeds may be used to help pay estate taxes at the second death.

PACIFIC LIFE

Pacific Life Insurance Company
Newport Beach, CA
(800) 800-7681 • www.PacificLife.com

Pacific Life & Annuity Company
Newport Beach, CA
(888) 595-6996 • www.PacificLife.com

____
Life Insurance Producer's Name

____
State Insurance License Number
(or affix your business card)

AD-OC-765B

15-23662-05 4/13