

Offices in  
Elizabeth City, Portsmouth,  
and Virginia Beach  
Tel: 757-399-7506  
Tel: 252-722-2890  
Fax: 757-397-1267  
Web: [www.oasthook.com](http://www.oasthook.com)



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*Special needs require special lawyers.*

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ChFC, AEP
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Editor  
Sandra L. Smith,  
Certified Elder Law Attorney

## IRA RESCUE

Tax-conscious individuals have often considered Qualified Plans (pension, profit sharing, 401k, and SIMPLE plans) and individual retirement accounts (IRA) to be an important part of their preparations for a more comfortable and secure retirement. Some reasons why taxpayers find qualified plans attractive are the following:

- Tax deductions for contributions made;
- Tax deferred accumulation until distributions are received; and
- The belief that tax rates will be lower during their retirement years.

As some qualified plan or IRA owners become more successful and affluent, however, they discover that they can comfortably meet their retirement needs by using assets *other* than the existing qualified plan or IRA. In that event, it becomes their intent to retain and preserve as much of their qualified plan/IRA money to pass on to heirs.

The Internal Revenue Code works against them (and their heirs) because, unlike most other assets, qualified plan and IRA assets do not receive a “step-up” in basis at death. Therefore, qualified plan and IRA assets that are not consumed during the original owner’s life can easily become one of the most heavily taxed assets he or she owns if held until death. This is because of the Tax Collector’s “Double Play”:

- **Income Taxes** – The entire value of the Qualified Plan or IRA is taxable as ordinary income to either the beneficiary of the Qualified Plan/IRA or to the owner’s estate, depending on who receives it.
- **Estate Taxes** – The Qualified Plan’s entire fair market value is included in the owner’s taxable estate and may be subject to federal estate tax.

Thus, without further preparation, the Internal Revenue Service (IRS) is likely to receive a substantial portion of your qualified plan or IRA assets, and may in fact become the biggest recipient of your retirement “nest egg.”

Qualified plan and IRA assets that are not needed for retirement income may be an ideal candidate for strategic repositioning of assets in a strategy called “IRA Rescue.” This technique can:

- Minimize the impact of federal estate and income taxes on what is left to loved ones; and
- Maximize the ultimate value of what your heirs receive.

To illustrate the benefits of the IRA Rescue strategy, let’s look at John and Mary, ages 76 and 72. Today they have total assets of \$2,500,000 consisting of various assets including John’s IRA with a value of \$500,000. With John’s pension, Social Security benefits, and income from investments, they do not need the \$500,000 in IRA money in order to be financially comfortable. Their wish is to do all they can upon their deaths for their children and grandchildren. Here is how the IRA Rescue Strategy will work for them:

**Step One:** John uses his \$500,000 IRA account to acquire a Single Premium Immediate Annuity (SPIA). This step does *not* trigger any tax consequences because the SPIA will continue to be IRA qualified. The SPIA contract will guarantee the sum of \$36,749 per year payable every year for the remainder of John’s and Mary’s lifetimes. Based on their 33% federal and state income tax bracket, the after-tax income from the SPIA is \$24,622 per year for as long as either John or Mary lives.

**Step Two:** John and Mary will gift the \$24,622 per year to an Irrevocable Life Insurance Trust (ILIT), which will use these funds to purchase a Second-To-Die life insurance policy that insures John and Mary. When both spouses are deceased, the policy will pay \$1,306,000 to the ILIT. There is no income, capital gains, gift or estate tax due on the insurance proceeds. The trust’s beneficiaries are John and Mary’s children. The trust language will make this money exempt from the claims of their children’s creditors or their children’s spouses in the event of divorce.

Let’s look at the difference the IRA Rescue Strategy makes. Assume John and Mary have both died in 15 years. If they have left their present situation unchanged, their children stand to receive \$569,000, after the payment of income taxes, from the value of the IRA at death. When we compare this to the \$1,306,000 that’s delivered tax free by the life insurance as part of the IRA Rescue Strategy, we see that there is an additional benefit to John and Mary’s children of \$737,000. This represents an improvement to their children of 130% over their present situation.

In conclusion, for IRA or qualified plan funds that are unneeded to maintain lifestyle, you can use the IRA Rescue Strategy to dramatically amplify the legacy that is passed on to loved ones.

If you would like further information, or a no-cost or obligation feasibility study to learn how this strategy can benefit your family and you, then please contact Oast & Hook.

*Richard E. Nottingham has practiced as a financial services professional for 32 years. He is the President and CEO of Cape Financial Inc. in Virginia Beach, Virginia. Mr. Nottingham has earned the professional designations of Chartered Life Underwriter, Chartered Financial Consultant, and Accredited Estate Planner. He can be reached at 757-557-6902 or [dick@capefinancialinc.com](mailto:dick@capefinancialinc.com).*

### Ask Allie

O&H: Allie, we know that it has been good for all of us to have you with us at Oast & Hook. Please tell us why pets are good for us.

Allie: Sure! An article in *Cat Fancy* magazine by Lara Lee Bloor outlined several specific ways that pets can boost the health of their human companions. Pets can improve heart health; a University of Minnesota study in 2008 showed that cat owners are less likely to die of heart attacks or other cardiovascular diseases than people who never had cats. This was true even when examining other risk factors such as age, gender, and race. (Similar benefits were not found for dog owners. Meow!) Cats can help you stay mentally healthy; if you are dwelling on problems, it's hard to stay upset when your cat wants to curl up on your lap. Pets provide a non-judgmental soundboard for you to express your thoughts and feelings without receiving negative feedback. Pets can offer support by helping to relieve stress. One study revealed that the presence of cats or dogs lowered stress levels better than spouses or friends. Because of their stress-relieving abilities, pets might help you cut down on medical expenses. A study in Australia revealed that pet owners had fewer doctor visits and took fewer medications than non-pet owners. Finally, believe it or not, pets can help lower allergy risks. Studies have shown that children who are exposed to cats or dogs are less likely to develop pet allergies later in life. Adults who were not exposed to pets during childhood and who were introduced to them later in life are more likely to develop pet allergies. Researchers say that if the immune system is heavily stimulated early in life, then a person is much less likely to see allergy problems later in life. The next time you are ready to grumble about a veterinary bill, remember all of the ways your pet helps to keep your family and you healthy. See you next week!

### Announcement

Oast & Hook is proud to announce that it has partnered with TowneBank to offer a series of seminars for seniors and their families. Each seminar will cover issues facing our seniors such as planning for retirement, elder law, Medicare, and long-term care planning. Oast & Hook and TowneBank will present six seminars, and each seminar will begin at 10:00 a.m. and will end at noon. Below is the list of dates and locations. Seating is limited. If you have any questions or would like to register for any of these seminars, then please phone Carol Hernandez at 757-638-6797.

#### April 27, 2010

TowneBank, Great Bridge Community Hall  
137 Mount Pleasant Road  
Chesapeake, Virginia 23322

#### April 28, 2010

TowneBank, New Town Banking Center  
5216 Monticello Avenue  
Williamsburg, Virginia 23188

### Distribution of This Newsletter

Oast & Hook encourages you to share this newsletter with anyone who is interested in issues pertaining to the elderly, the disabled and their advocates. The information in this newsletter may be copied and distributed, without charge and without permission, but with appropriate citation to Oast & Hook, P.C. If you are interested in a free subscription to the *Oast & Hook News*, then please e-mail us at [mail@oasthook.com](mailto:mail@oasthook.com), telephone us at 757-399-7506, or fax us at 757-397-1267.

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