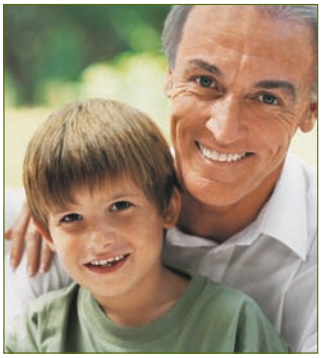
American Funds®

The right choice for the long term®

# Pass on more than your good looks

## Turn your IRA into an estate-planning tool



With a little planning, your Individual Retirement Account (IRA) can help you take care of the ones you love — even after you're gone.

### Keep it in the family — create an IRA legacy

Since their introduction in the 1970s, IRAs have been a popular way for millions of people to build their retirement nest egg. An IRA allows you to accumulate assets over the course of your working life and can serve as a powerful estate-planning tool for passing along a legacy to future generations.

### How does it work?

There are two types of IRAs, traditional and Roth, each with its own rules and benefits.

**Traditional IRAs** — The IRS requires investors to start taking withdrawals — called required minimum distributions or RMDs — from their traditional IRAs when they reach age 70½. If you don't need your IRA as a primary source of retirement income, you can withdraw just the RMD and save the balance of your account for your loved ones. In turn, when your beneficiaries inherit the IRA, they have the option of preserving the assets you've accumulated by taking only the RMDs each year, rather than cashing in by taking a lump-sum distribution. By stretching the income from the IRA, your heirs can benefit in several ways:

- The RMDs can be made over more than one person's lifetime.
- You or your beneficiaries pay income taxes only on the amount withdrawn each year.
- The undistributed balance in the IRA has the potential for continued tax-deferred growth.

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**Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.**

**You should carefully consider the objectives, risks, charges and expenses of the American Funds and, if applicable, any other investments in your IRA. This and other important information is contained in the funds' summary prospectuses and/or prospectuses, which are available from a financial adviser and on the Web. Please read the prospectuses carefully before investing. Tax issues involving IRAs can be complex. Withdrawals are subject to ordinary income tax and, if applicable, to an additional 10% federal tax penalty on early withdrawals. American Funds does not offer tax advice to investors. You should consult with your personal tax adviser before making any decisions. Stretching income from an IRA for beneficiaries may not be appropriate for investors who need income from the IRA to cover their retirement expenses.**

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**Roth IRAs** — When it comes to "keeping it in the family," one of the best ways to preserve your IRA balance is through a Roth IRA. With a Roth, no RMDs are required during your lifetime, and the entire account can be preserved for your heirs. Due to income restrictions, not everyone can contribute to a Roth. However, everyone can *convert* from a traditional IRA to a Roth IRA. Keep in mind that converting to a Roth is a taxable event. For more information on converting to a Roth IRA, please speak with your financial adviser.

Regardless of the type of IRA you have, withdrawals can be structured as described on the next few pages so that your heirs can take advantage of either the tax deferral of a traditional IRA or the tax-free potential of a Roth IRA.

### Meet the Wilsons

Let's put this legacy concept into action. Take the Wilson family — Clark and Marie, their daughter Amy, and grandson Michael. When Michael was born, everyone said he had his grandmother's smile and his grandfather's good looks. Later, he inherited much more. Here's how:

### First generation

**First year — Clark, owner of a $250,000 traditional IRA**, begins taking withdrawals the year he reaches 70½. Since he and Marie don't need the money to cover their retirement expenses, he decides to take only the RMD each year and preserve the remaining balance for his heirs.

| | |
|---|---|
| Beginning account value | $250,000 |
| Total RMDs before taxes | $118,897 |
| Total RMDs after taxes | $ 85,606 |
| **Years of distributions** | **10** |

**11th year — Marie, Clark's wife and beneficiary**, inherits his IRA after he passes away. She rolls the balance into an IRA in her name and designates her daughter, Amy, as her beneficiary. Marie, age 76, must begin taking withdrawals based on the IRS life expectancy of 22 years. This figure is taken from the IRS Uniform Lifetime Table and is based on a joint life expectancy factor for Marie and her beneficiary. Because she doesn't need the money to meet her expenses, she continues to take only the RMD.

| | |
|---|---|
| Beginning account value | $295,106 |
| Total RMDs before taxes | $170,766 |
| Total RMDs after taxes | $122,952 |
| **Years of distributions** | **10** |

# Pass on more than your good looks

## Second generation

**21st year — Amy inherits her mother's IRA** at the age of 53. Instead of cashing out the account, she decides to take RMDs based on her IRS life expectancy of 31.4 years. She designates her son, Michael, as her subsequent beneficiary. Had Amy liquidated the IRA immediately after her mother passed away, she would have received $206,868 after taxes — almost $200,000 less than her total distributions.

| | |
|---|---|
| Beginning account value | $308,759 |
| Total RMDs before taxes | $563,158 |
| Total RMDs after taxes | $405,474 |
| **Years of distributions** | **25** |

## Third generation

**46th year — Michael inherits his mother's IRA** and decides to continue taking his mother's remaining RMDs. Over seven years, Michael's withdrawals total $268,519 after taxes — almost $70,000 more than the $198,689 after-tax amount he would have received had he opted to cash out the account after his mother passed away.

| | |
|---|---|
| Beginning account value | $296,550 |
| Total RMDs before taxes | $372,944 |
| Total RMDs after taxes | $268,519 |
| **Years of distributions** | **7** |

## Adding it up

| Income before taxes | | | Years of distributions | | |
|---|---|---|---|---|---|
| Clark | ➤ | $ 118,897 | Clark | ➤ | 10 |
| Marie | ➤ | $ 170,766 | Marie | ➤ | 10 |
| Amy | ➤ | $ 563,158 | Amy | ➤ | 25 |
| Michael | ➤ | $ 372,944 | Michael | ➤ | 7 |
| **Total:** | ➤ | **$1,225,765** | **Total:** | ➤ | **52** |

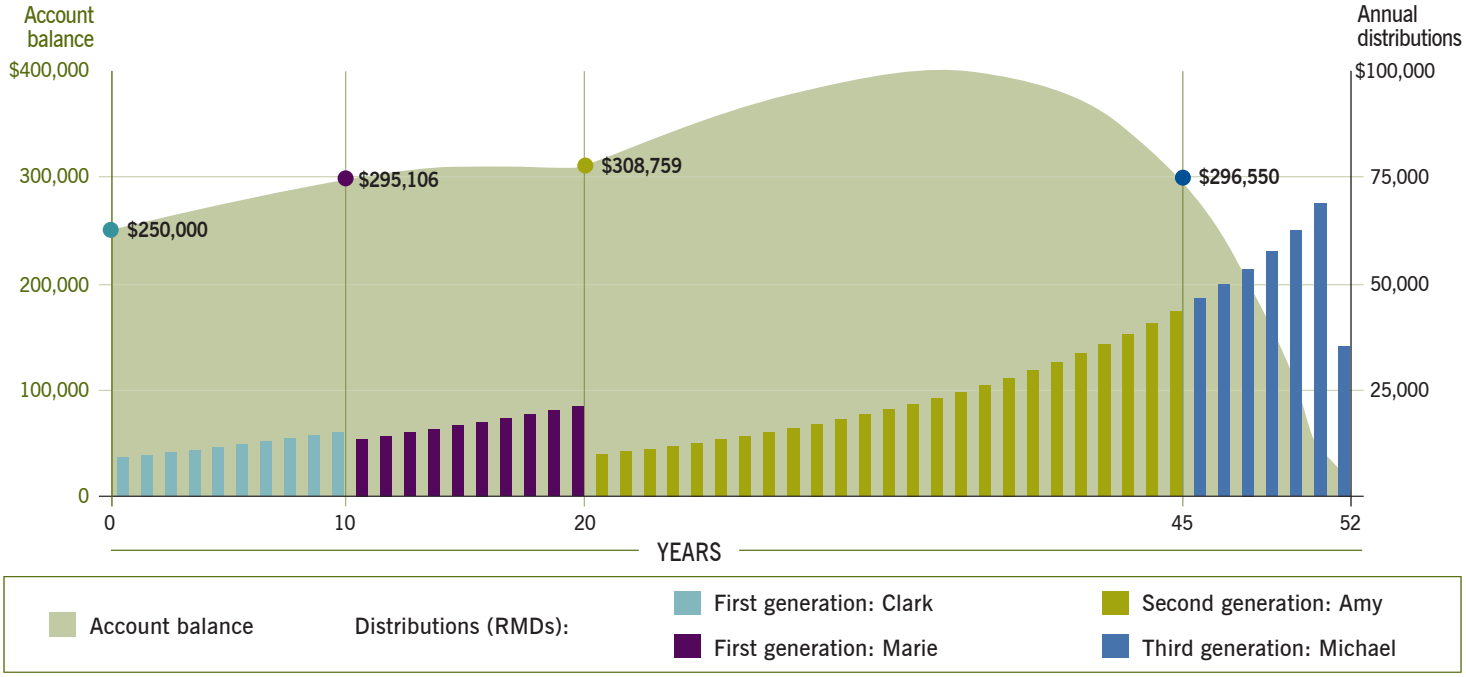
**The chart on the next page further illustrates the story of the Wilsons.**

## The value of personal service

What you decide to do now with your IRA can have a tremendous impact on you and your beneficiaries later on. That's why American Funds encourages investors to consult with a financial adviser or tax adviser first. These professionals have the insight and expertise to help you make the right decisions given your own unique circumstances.

## A family's legacy — the big picture

How a $250,000 traditional IRA could generate a total of $1,225,765 in income (before taxes) over a period spanning 52 years and three generations.




| | First Generation – Clark | First Generation – Marie | Second Generation – Amy | Third Generation – Michael |
|---|---|---|---|---|
| Beginning account value | $250,000 | $295,106 | $308,759 | $296,550 |
| Total RMDs before taxes | $118,897 | $170,766 | $563,158 | $372,944 |
| Total RMDs after taxes | $85,606 | $122,952 | $405,474 | $268,519 |
| Number of distribution years | 10 | 10 | 25 | 7 |

This illustration assumes a 6% average annual total return and does not represent the results of any specific investment. There is no guarantee that a 6% average annual total return can be achieved. Differences between actual investment results and hypothetical rates of return can result in significant differences between the projected and actual required distributions. Estate taxes are not taken into consideration. After-tax distributions assume a federal income tax rate of 28.0% (Amy's and Michael's tax rates would have been 33.0% if they had taken lump-sum distributions).

Hypothetical results are for illustrative purposes only. RMDs are calculated using life-expectancy factors from the Uniform Lifetime Table for IRA owners and Single Life Expectancy Table for non-spouse beneficiaries (IRS Publication 590). Amounts for any beneficiary will be lower than the results shown if prior IRA owners or beneficiaries make withdrawals in excess of their RMDs.

No additional contributions are made to the IRA, and no distributions other than the projected RMDs are taken from the IRA. All RMDs are assumed to be removed from the IRA on December 31 of the projected year. IRS regulations allow the IRA owner to take the first and only the first of these distributions by April 1 of the year following the owner's required beginning date. This provision is not reflected in these projections. Withdrawals made by the IRA owners before the required beginning date may be subject to taxes and early withdrawal penalties. Tax law and regulations pertaining to IRAs may change over time, so consult with your tax adviser. For example, unless extended by Congress, the contribution limit for 2011 will revert back to the old limit of $2,000.

**This document is not intended to be used by investors to avoid tax penalties that they might be subject to under U.S. federal tax laws.**

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