

HEART Act

What beneficiaries need to know



SECURING THE
FINANCIAL
FRONTLINE

Death Gratuity / Servicemembers' Group Life Insurance (SGLI)

The time following the loss of your Soldier is extremely difficult. In addition to dealing with grief, you may be faced with financial insecurity and the need to make decisions about the survivor benefits you will receive. Your Soldier designated beneficiaries for the death gratuity and SGLI to provide financial stability. Recipients of these benefits can protect their finances by using provisions of the HEART Act.

What is the HEART Act?

The **H**eroes **E**arnings **A**ssistance and **R**elief **T**ax Act of 2008 (HEART Act Public Law 110-245, §109) allows recipients of the death gratuity and/or SGLI to contribute all or part of the payments received to a Roth IRA and/or a Coverdell Education Savings Account (CESA) without the usual restrictions on contributions or distributions. Contributions must be made within **one year** of receiving the benefits.

Bottom line – you can put SGLI and death gratuity payments into tax-advantaged accounts **while you work through** your overall financial situation. You have full access to your contributions and can remove them without penalty!



Tax-Advantaged Account Options:

- Roth IRA **Rollover*** Contribution
- Coverdell Education Savings Account (CESA)

**Contributions need to be coded as a Rollover Contribution.*

A Roth IRA is an individual retirement account. Typically after-tax contributions are made into the account and are withdrawn tax-free after age 59 1/2 if IRS conditions are met.



What if I need the money?

Contributions made in accordance with the HEART Act may be withdrawn at any time NOT subject to IRS restrictions. However, any **growth** on those contributions **IS** subject to IRS restrictions including possible taxes and penalties. Generally, qualified tax-free distributions are made after age 59 1/2, death, or disability, and also made after the 5-year period following an initial contribution to any Roth IRA.

Example: If you contribute \$50,000 to a Roth IRA and earn \$5,000 on the account, you may withdraw up to the original \$50,000 contribution without any taxes or penalties. The \$5,000 in earnings may be subject to taxes or penalties if withdrawn early.

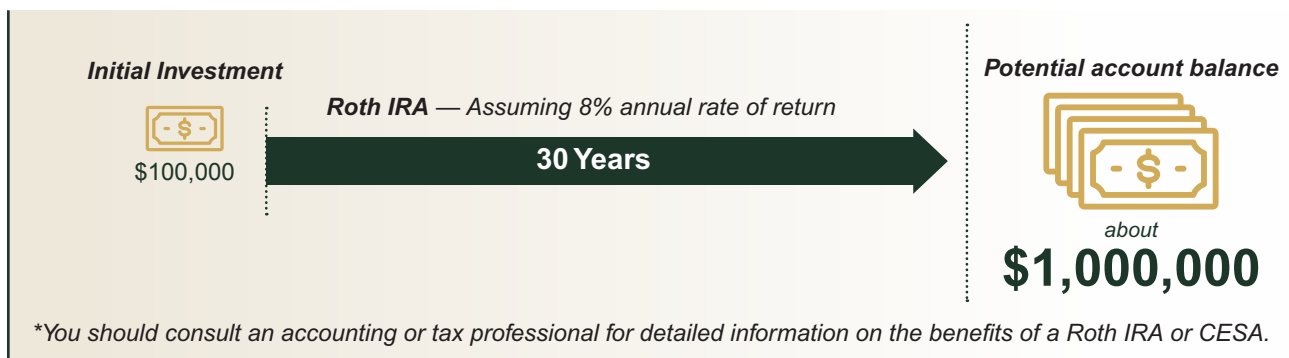
CESA is a custodial account set up for paying qualified education expenses for a designated beneficiary. You can contribute a lump sum and receive tax-free growth and distribution if meeting the IRS qualified restrictions. A dependent may be entitled to other education benefits so be sure to know those benefits and evaluate your education goals. The key here is to work with a credentialed financial counselor before funding to determine the best course of action for your education needs.

Eligible beneficiaries have ONE YEAR from receipt of funds (not date of death) to take advantage of these tax provisions.

Tips for Success

- 1. Find a trusted financial advisor and tax professional to help you discuss your financial situation.** Beware of scammers as this can be a prime time for targeted ID theft and bad actors seeking access to your funds. The Securities and Exchange Commission at www.sec.gov is a great site to help you determine quality resources. Also work with your Survivor Outreach Services Coordinator or a credentialed Personal Financial Manager or Counselor on your installation. Identifying your short, medium and long-term goals is important to do before making any financial decisions.
- 2. Park your proceeds.** You can withdraw your contributions (i.e., what you put in) penalty-free, so don't wait!
- 3. Evaluate your financial situation.** Do you have immediate needs such as large bills or debt to pay? Do you have a need for a major purchase such as a home or car? What are your education needs? Do you have savings for retirement?
- 4. Feel empowered and set yourself up for success.** The HEART Act benefits can help provide financial security for your future. Whether you take advantage of the CESA option along with other possible VA education benefits and/or leverage the savings of a Roth IRA, these sound financial decisions may help you achieve your goals.

The benefit is staggering! As an example, if you invest \$100,000 into a Roth IRA, and invest in a portfolio that earns a hypothetical 8% annual rate of return, in 30 years you could have about \$1 million dollars to withdraw tax-free for retirement.



The Army's Survivor Outreach Services (SOS) can assist you with additional information and referrals so that you can make the best informed decision about the HEART Act.

For Financial Institution:

Section 109 of the HEART Act: http://www.irs.gov/irb/2010-06_IRB/ar09.html

IRS: <https://www.irs.gov/pub/irs-drop/n-10-15.pdf>

