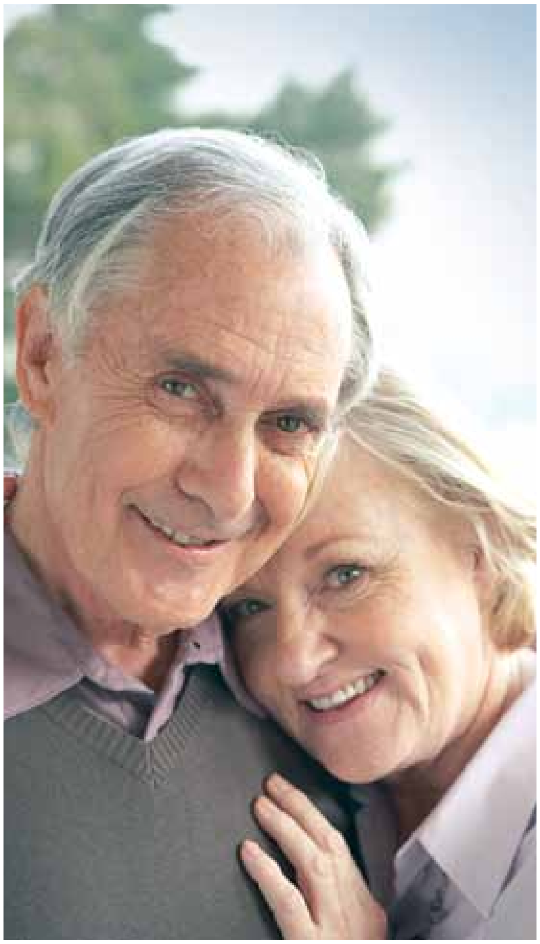
Retirement Planning

Leaving a Lifetime Gift to Your Heirs



Are you looking for a way to lower the tax bite and extend the tax-deferred growth of your retirement plan assets for your children and grandchildren? Or perhaps you want to minimize your retirement income when you don't need your Traditional IRA assets for living expenses?

Careful selection of your beneficiaries and a thoughtful approach to the distribution of your IRA assets are the foundation of leaving a lifetime gift to your heirs.

What are required minimum distributions?

The Internal Revenue Service requires that you start taking distributions at age 70½ from your tax-deferred Traditional IRA each year, based on your life expectancy. These are called required minimum distributions.

How do you leave a lifetime gift to your heirs?

Instead of your beneficiary(ies) receiving a taxable, lump-sum distribution of your IRA, they may receive distributions based on their life expectancy.

Because of the continued tax deferral and the relatively small life expectancy payments, even a modest IRA may provide your loved ones with a significant tax-deferred, long-term asset. Here are two ways to accomplish this:

- Leave your IRA to your spouse. When you die, your spouse can roll the IRA into their name, assign a younger beneficiary, and begin withdrawals when he/she reaches age 70½. When your spouse dies, the beneficiary can take withdrawals based on their life expectancy. That beneficiary could be your child, grandchild or an unrelated person.
- Name your child, grandchild or an unrelated person as the beneficiary and bypass the spousal rollover. When you die, the beneficiary can take withdrawals based on their life expectancy.

Note: *Your beneficiary(ies) may be changed to other named beneficiaries until Sept. 30 of the year following the year you die. This provides your beneficiary(ies) flexibility with their inheritance planning.*

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People who have accumulated a lot of money in their IRA may have significant retirement assets that will be left to their heirs when they die.

Establishing a lifetime gift

If you already have a Traditional IRA you can benefit from this strategy. It may be as simple as reviewing the current beneficiaries on your existing IRA, opening a new IRA and naming a new beneficiary, or transferring part of an existing IRA to a new IRA and naming a different beneficiary.

Examples of poor planning vs. proper planning

It's important to understand how a distribution strategy can impact you and your heirs. When structured properly, assets for your children and grandchildren can grow tax deferred for decades.

Example 1

Poor Planning by Taking Lump-Sum Distribution

$105,000 Tax Loss

Jim • Father • Age 72 .... IRA Owner
$300,000 IRA Balance at Death
Raymond • Child • Age 40 .... Beneficiary
Takes lump-sum distribution

After Jim's death, Raymond receives a lump sum distribution of the IRA assets

IRA Value at death .... $ 300,000
Income Tax Due.. $ 83,528[1]
Total Net to Raymond ....$ 216,472

Your IRA assets may also be subject to double taxation depending on the size of your estate and your income tax bracket. In this scenario the IRA asset lost over 26 percent of its value to taxes without considering possible estate taxes.

[1]*Assumes 2012 combined federal and state income tax rate of 33% on $300,000 with no deduction for Income in Respect of Decedent (IRD).*

Example 2

Proper Planning by Taking Lifetime Distributions

$300,000 at 6% Growth

Jim • Father • Age 72 .... IRA Owner
$300,000 IRA Balance at Death
Raymond • Child • Age 40 • Beneficiary .... $ 300,000
Takes lifetime distributions

Life Expectancy Distributions[2] — Following Jim's death, Raymond begins receiving distributions over his individual life expectancy, which spans decades, actually 42.6 years.

Total after tax distribution to Raymond .... $ 922,459

A lifetime gift much larger than a lump-sum distribution!

[2]*With this strategy, you do not avoid the payment of estate taxes, but income taxation of the inherited assets will be spread over a number of years. The 6 percent annual earnings rate is hypothetical, and does not reflect the actual performance of any investment. There can be no guarantee that any particular rate of return will be achieved.*

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