

Good morning/afternoon/evening. I'd like to welcome you to our presentation entitled, "Understanding Who Should Be Beneficiary of Your IRA." We're delighted you could join us.

My name is \_\_\_\_\_ and I'm (position/title) with (company/firm).

(Talk about yourself for a minute or two, so people can get to know you. Be sure to include how long you've been in business, your specialty, location, etc.)

## What You Will Learn

- ◆ Latest rules
- ◆ 5 options for beneficiary
- ◆ How to turn a modest account into millions
- ◆ How your choice of beneficiary affects:
  - How long tax-deferred growth can continue
  - Estate taxes

In this presentation, you will learn about the latest rules that affect tax-deferred plans.

You will learn about the five options you have for beneficiary.

You will learn how naming the right beneficiary can let you turn even a modest tax-deferred account into millions for your family.

You will learn how your choice of beneficiary will affect how long the tax-deferred growth can continue after you die, and how much your family will have to pay in estate taxes.

The information in this presentation will be explained in plain English—no legalese—and the entire presentation will take about 40 minutes.

So we can end on time, please write down your questions as you think of them and hold them until the end. I'll be happy to answer them then.

Now, let's get started.

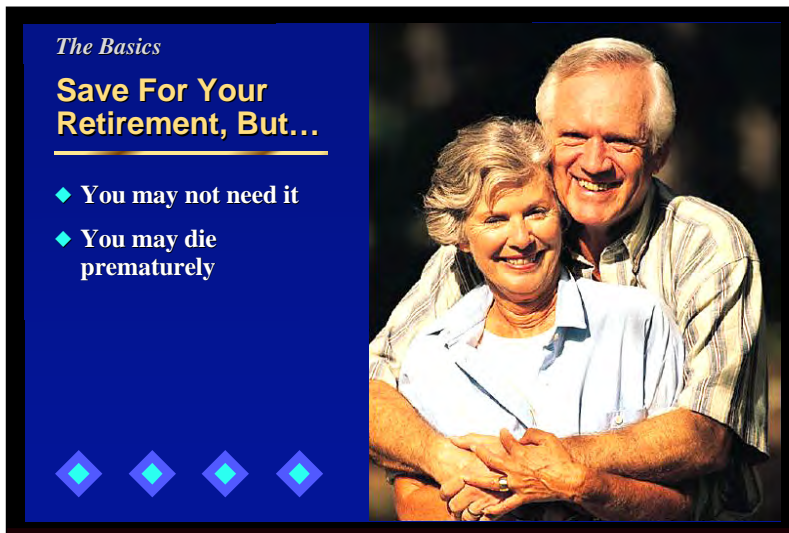
## What Are Tax-Deferred Plans?

- ◆ Traditional IRA
- ◆ Pension
- ◆ Profit Sharing
- ◆ 401(k)
- ◆ 403(b)
- ◆ Keogh

Let's start with some basics. First, what are the tax-deferred plans that we will be talking about?

They include traditional IRAs, pension, profit sharing, 401(k), 403(b) and Keogh plans.

These are all called tax-deferred plans because you did not pay income taxes on this money when the contributions were made and you do not pay income taxes on the earnings each year. The income taxes are *deferred* until you withdraw the money at a later time—preferably at your retirement, when your income and income tax bracket are lower.



The intent of these plans was to encourage you to save for your retirement.

But you may not need all this money for your retirement if you have other sources of income. In fact, you may not need it at all. And, of course, you may die prematurely, with money still in your tax-deferred account.

So, you need to name a beneficiary—someone who will receive this money (if there is any left) after you die.

Now, you may be thinking: “I probably won’t need all this money for my retirement. So I’ll just leave it in my tax-deferred account and let it keep growing.”

Unfortunately, it doesn’t work that way. At a certain point, Uncle Sam says you must start taking your money out.

## Required Beginning Date

- ◆ April 1 of year following year you become 70 1/2
- ◆ Actual retirement date if working after age 70 1/2
  - Less than 5% owner of company
  - Employer-sponsored plans only (not IRA)
- ◆ 50% penalty if late

This is called your Required Beginning Date. For most of us, this will be April 1 following the year in which we become age 70 1/2. So, for example, if you become 70 1/2 in 2009, your Required Beginning Date will be April 1 of the year 2010.

You may choose to delay your Required Beginning Date until your actual retirement date if you continue working past age 70 1/2 and you do not own 5% or more of the company.

However, this exception only applies to employer-sponsored plans—like pension and profit sharing plans. If you have an IRA, you must start taking money out of it by April 1 of the year following the year in which you become age 70 1/2, regardless of when you actually retire.

Uncle Sam is serious about this date. If you miss it, the penalty is 50% of the amount you should have withdrawn.

**SPEAKER NOTE:** Although you have until April 1 of the year following the year in which you become age 70 1/2 to take your first distribution, waiting until this date can cause you to take two distributions in one year—because you will have to take another distribution (for age 71) by December 31 of the same year. This could push you into a higher income tax bracket and cause you to pay too much in income taxes.

## Required Minimum Distribution

- ◆ Can take more at any time
- ◆ 50% penalty if too little

The next question is, “How much am I required to take out?”

This is called your Required Minimum Distribution. You can take out more at any time, but Uncle Sam says you must take out at least a certain amount every year.

Uncle Sam is serious here, too. If you don't take out enough, there is a 50% penalty on the amount you should have taken out but didn't.

Calculating your Required Minimum Distribution is very straightforward.

## Required Minimum Distribution (RMD)

$$\begin{array}{|c|} \hline \text{ACCOUNT} \\ \text{BALANCE} \\ \hline \end{array} \div \begin{array}{|c|} \hline \text{LIFE} \\ \text{EXPECTANCY} \\ \text{DIVISOR} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{RMD} \\ \hline \end{array}$$

Here's how it works. At the end of every year, you divide the balance in your tax-deferred account by a life expectancy divisor found on a chart provided by the IRS. The result is the minimum amount you are required to withdraw for that year.

Not For Duplication  
Or Distribution

## Required Minimum Distribution (RMD)

$$\boxed{\$100,000} \div \boxed{27.4} = \boxed{\$3,650}$$

For example, the divisor at age 70 is 27.4. If the balance in your account at the end of the year is \$100,000, you divide \$100,000 by 27.4, making your first required minimum distribution \$3,650.

Almost everyone now uses the same chart to find their life expectancy divisor, even if you have NO beneficiary. You would use a different chart only if your spouse is more than ten years younger than you are. So, let's take a look at the chart.

### Uniform Table

Age	Divisor	Age	Divisor
70	27.4	79	19.5
71	26.5	80	18.7
72	25.6	81	17.9
73	24.7	82	17.1
74	23.8	83	16.3
75	22.9	84	15.5
76	22.0	85	14.8
77	21.2	86	14.1
78	20.3	87	13.4

This is a portion of the Uniform Table, the one most of us will use to find our life expectancy divisors each year.

As you can see, at age 70, the divisor is 27.4, which we used in our example. At age 71, the divisor is 26.5. Notice each year the divisor gets smaller, and it decreases by less than “1” each year. In fact, it never goes to “zero.” Even at age 115 and older, which is not shown here but is on the actual table, the divisor is 1.9.

**SPEAKER NOTE:** Under the old rules, you had to decide whether to recalculate or not recalculate your life expectancy each year. And if your spouse was your beneficiary, you had to decide whether to recalculate or not recalculate your spouse’s life expectancy, too. It was a complicated decision, and one that was irreversible—you could not change your mind later. Now, under the new rules, recalculation is a dead issue. With this chart, everyone gets the benefit of recalculating your life expectancy.

## Your Beneficiary

- ◆ Change beneficiary at any time and use new beneficiary's life expectancy
- ◆ Name both primary and contingent beneficiaries now for flexibility and "clean up" later

You can change your beneficiary at any time while you are living. After you die, the distributions will be paid over that beneficiary's life expectancy.

For example, let's say you named your spouse as beneficiary and your spouse died soon after you started taking distributions from your account. You name your grandson as the new beneficiary. After you die, the distributions will be paid over your grandson's life expectancy, which will give you many more years of tax-deferred growth on this money.\*

It is very important to name both primary and contingent beneficiaries now while you are living to allow for greater flexibility and "clean up" later, after your death. For example, your surviving spouse could disclaim (or refuse) some benefits so a grandchild could inherit. No new beneficiaries can be added after you die (unless your spouse does a rollover, which we'll discuss shortly), so make sure you have all appropriate beneficiaries included.

Just how important can long-term tax-deferred growth be? Let's take a look and see.

\*SPEAKER NOTE: Under the old rules, you could name your grandson as the new beneficiary, but the distributions would still be paid over your deceased spouse's life expectancy.

## Benefit of Young Beneficiary

### Total Income from IRA Over Beneficiary's Lifetime\*

Age	Life Exp.	Value of IRA When Inherited by Beneficiary		
		\$50,000	\$100,000	\$500,000
20	63.0	\$882,865	\$1,765,731	\$8,828,658
30	53.3	526,612	1,053,225	5,266,128
40	43.6	321,210	642,421	3,212,106
50	34.2	201,067	402,134	2,010,671

\*Assumptions: 7% annual return; only required minimum distributions withdrawn. Income subject to income taxes.

For example, let's say your grandson is 20 when he inherits a \$100,000 IRA from you or your spouse. Over the next 63 years, which is the life expectancy of a 20-year-old, this \$100,000 IRA can provide your grandson with over \$1.7 million in income!

Of course, this income is subject to income taxes. But with a Roth IRA, which we will discuss later on, the distributions would be tax-FREE!

As you can see, naming the right beneficiary is critical to getting the most tax-deferred growth on your money.

SPEAKER NOTE: The projections shown are based on a 7% annual rate of return, with only minimum required distributions taken each year.

## **If You Die Without A Beneficiary**

- ◆ **Death before RBD**
  - 5-year payout
- ◆ **Death after RBD**
  - Remainder of your “fixed life expectancy”

What happens if you die without a beneficiary? That depends upon WHEN you die.

If you have not named a beneficiary and you die BEFORE your Required Beginning Date, your account must be paid out within five years.

If you have not named a beneficiary and you die AFTER your Required Beginning Date, distributions will be paid over the remaining years of your “fixed life expectancy.” This is determined from an IRS table based on your age in the year you die.

## 5 Beneficiary Options

- ◆ Spouse
- ◆ Children, grandchildren, others
- ◆ Trust
- ◆ Charity
- ◆ Some or all of the above



◆ ◆ ◆ ◆

Now, let's look at the five choices you have for beneficiary. They are:

1. Your spouse, if you are married;
2. Your children, grandchildren or other individuals;
3. A trust;
4. A charity; and
5. Some or all of the above.

We'll start with Option 1—naming your spouse as beneficiary.

**Option 1.  
Spouse as  
Beneficiary**

---

◆ Benefits

- Money available to spouse
- Spousal rollover option



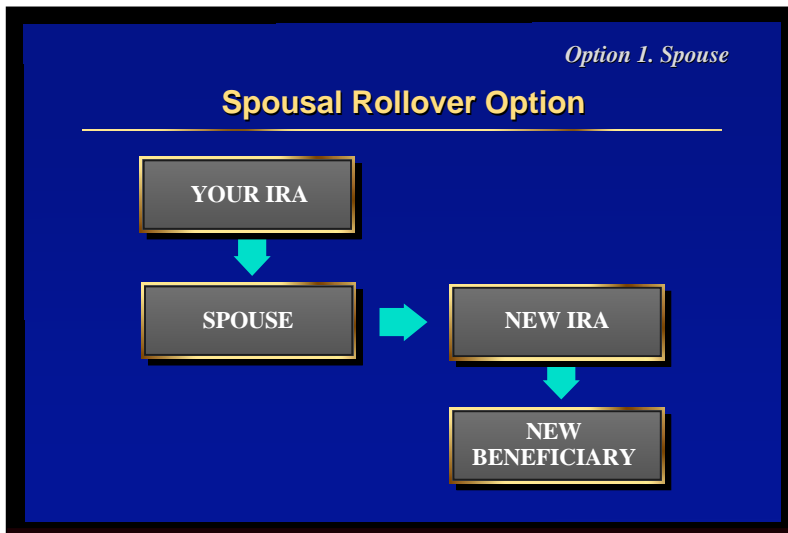
◆ ◆ ◆ ◆

Most married people name their spouse as beneficiary. That's because the money will be available to your spouse after you die and it gives you the spousal rollover option.

Here's how the spousal rollover works.

Not For Duplication  
Or Distribution

## Spousal Rollover Option



If you die first, your spouse can “roll over” your tax-deferred account into his or her own IRA. If your spouse is younger than you are, the money can stay in the IRA, growing tax-deferred, until your spouse reaches age 70 1/2.

When your spouse does the rollover, he or she names a new beneficiary—preferably a much younger one, such as your children and grandchildren.

After your spouse dies, the beneficiary’s actual life expectancy will be used for the remaining distributions. Depending on the ages of your children and/or grandchildren, this could mean decades of tax-deferred growth.

Under current IRS policy, your spouse can do this rollover and stretch out the IRA even if you had started taking required minimum distributions before you died.

## Disadvantages

- ◆ Spouse has control of money
- ◆ Risk of court interference at incapacity
- ◆ Risk of creditors
- ◆ Possible estate tax trap
- ◆ Lose spousal rollover option if spouse dies first

Of course, there are some possible disadvantages of naming your spouse as beneficiary that you must consider.

First, your spouse will have full control of this money after you die and is under no obligation to follow your wishes. So, this may not be what you want, especially if you have children from a previous marriage or feel that your spouse may be too easily influenced by others after you die.

If your spouse becomes incapacitated, the court could take control of this money. The money could be lost to your spouse's creditors. Also, naming your spouse as beneficiary can be an estate tax trap, causing your family to pay too much in estate taxes after you die. We'll discuss this more later in the presentation.

Finally, if your spouse dies before you and you don't remarry, you lose the spousal rollover option.\* But this is not really a disadvantage because you can name a new beneficiary, and after you die the distributions will be based on the new beneficiary's life expectancy.

\*SPEAKER NOTE: This used to be a problem, because distributions after your death would still be based on your and your deceased spouse's life expectancies.

## Option 2. Children, Others as Beneficiary

### ◆ Benefits

- Beneficiary's actual life expectancy after you die
- Potentially many years of tax-deferred growth



Option 2 is naming your children, grandchildren or others as beneficiary.

You would want to consider this if your spouse will have plenty of other assets after you die, if you have reason to believe your spouse will die before you, or if you are not married.

After you die, the distributions can be paid over your beneficiary's actual life expectancy. Depending on his or her age, that could potentially mean another 30, 40, 50, 60 or more years of tax-deferred growth.

## Disadvantages

- ◆ You lose control
- ◆ Money exposed to irresponsible spending, creditors
- ◆ Risk of court interference at incapacity

However, there are some disadvantages you must consider.

Any time you name an individual as beneficiary, you lose control. After you die, your beneficiary can do whatever he or she wants with this money, including cashing out the full balance of the account and destroying your carefully made plans for long-term, tax-deferred growth.

The money could be available to the beneficiary's creditors, spouses and ex-spouses.

And there is the risk of court interference at incapacity.

If any of this concerns you, consider using a trust, which is Option 3.

### Option 3. Trust as Beneficiary

- ◆ Benefits
  - Gives you maximum control
  - Can protect assets from courts, creditors and irresponsible spending
  - Can save estate taxes

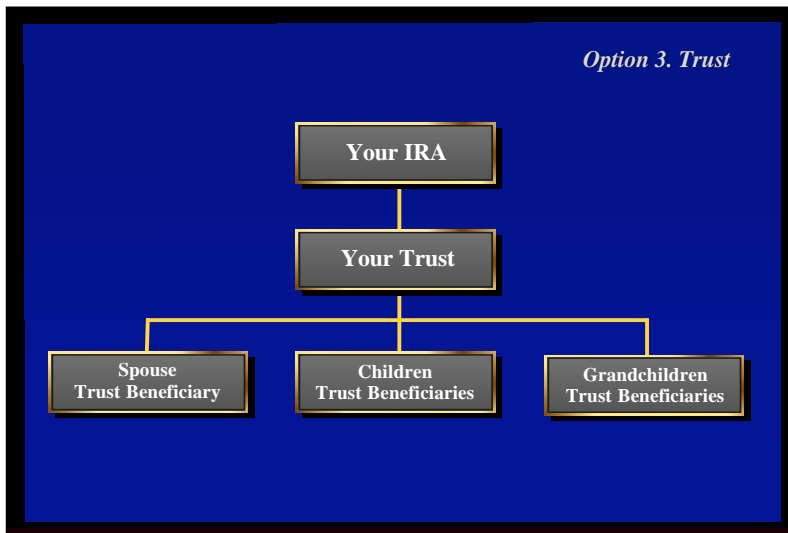
Naming a trust as beneficiary will give you maximum control over your tax-deferred money after you die. That's because the distributions will be paid not to an individual, but into a trust that contains your written instructions stating who will receive this money and when.

This can protect the assets from the courts (if the beneficiary becomes incapacitated), from creditors, spouses and irresponsible spending.

And it can help save estate taxes after you die. You probably are aware that, currently, in 2010 there is no federal estate tax, but it is scheduled to return in 2011. So, it is still important to understand how the estate tax can affect your tax-deferred plans.\*

First, let's look at how naming a trust as the beneficiary works.

\* SPEAKER NOTE: If your state has a death or inheritance tax, this would be a good time to mention it.



As shown here, you set up a trust and name the trust as the beneficiary of your IRA or tax-deferred plan. Then, you name your spouse, children, even your grandchildren as beneficiaries of the trust.

While you are living, the distributions from the tax-deferred account are paid to you based on your life expectancy. Then, after you die, the distributions will be paid to the trust, based on the life expectancy of the oldest beneficiary of the trust.

When you set up the trust, you provide instructions for how this money is to be used. For example, your trust could provide income to your spouse for as long as he or she lives. Then, after your spouse dies, the income could go to someone else. The trust could even provide periodic income to your children or grandchildren, keeping the rest safe from irresponsible spending, creditors and spouses.

The trustee of the trust can withdraw more money from your tax-deferred account if needed to follow your instructions—just as you can while you are living—but the rest can stay in the account and continue to grow tax-deferred. You can name anyone you wish as trustee, but some people name a bank or trust company, especially if the trust will exist for a long period of time—for example, if your grandchildren are beneficiaries of the trust.

## Trust Requirements

1. Valid under state law
2. Irrevocable at death
  - Revocable living trust
  - Retirement benefit trust (Stand-alone retirement trust)
3. Beneficiaries must be individuals and identifiable
4. Copy to IRA trustee/custodian

To work this way, the trust must meet certain requirements.

First, it must be valid under state law.

Second, it must be irrevocable or become irrevocable at your death. A revocable living trust can be the beneficiary because it becomes irrevocable when you die. However, it is advantageous to create an irrevocable Retirement Benefit Trust, also called a Stand-Alone Retirement Trust, and to name this trust as the beneficiary on your beneficiary designation form.

Third, all beneficiaries of the trust must be individuals and they must be identifiable from the trust document.

And fourth, a copy of the trust, and any subsequent revisions, must be given to the IRA trustee, custodian or issuer.\*

\*SPEAKER NOTE: Alternatively, an affidavit prepared by an attorney that lists all the trust beneficiaries (including contingent and remainder beneficiaries) and their shares in the tax-deferred account can be given to the plan administrator. (Revisions to this list must also be provided.) Some attorneys may be reluctant to provide this certification because they could be held liable if they omit any heirs (not just the beneficiaries in the trust). However, even if a copy of the trust must be provided, it probably will not result in a loss of much privacy because few plan administrators actually read the entire document.

## Disadvantages

- ◆ Cannot provide for spouse and get stretch out
- ◆ Must use life expectancy of oldest trust beneficiary
- ◆ Lose spousal rollover option
- ◆ Higher income tax rates if distributions stay in trust

As good as this option is, there are some disadvantages to keep in mind.

First, you cannot provide for your spouse and stretch out the tax-deferred growth over your children's or grandchildren's life expectancies. That's because you must use the life expectancy of the oldest beneficiary of the trust. And if your spouse is a beneficiary of the trust, he or she will probably be the oldest beneficiary.

Of course, if your spouse is not a beneficiary of this trust, then the oldest beneficiary may be one of your children. That would let you stretch out the tax deferral over your child's life expectancy. But then the money would not be available to your spouse unless your child wants to be generous.

Next, when you name the trust as beneficiary, you lose the spousal rollover option. There have been times when the IRS did allow a spousal rollover even though a trust was beneficiary, but each time there were very specific circumstances. If you want to be sure your spouse will have the option of using the rollover, name your spouse as beneficiary.

Finally, distributions from your tax-deferred account that are paid to the trust are subject to income tax. If the money stays in the trust, a higher income tax rate would probably apply, because many trusts pay income taxes at a higher rate than most individuals. However, this would only apply to income that STAYS in the trust. Usually this is not a problem, because the trustee has authority to distribute the money to the beneficiaries of the trust, who pay the income tax at their own, usually lower, rates.

## Option 4. Charity as Beneficiary

- ◆ Benefits
  - No income taxes
  - Reduces estate taxes

Option 4 is naming a charity as beneficiary.

If you are planning to leave an asset to a charity after you die, a tax-deferred account can be an excellent one to use. Here's why.

The charity will pay no income taxes when it receives the money. And because your gift is not reduced by income taxes, the charity receives the full amount of your tax-deferred account.

Also, assets you leave to charity when you die are not included in your taxable estate. So naming a charity as beneficiary can reduce the amount your family may have to pay in estate taxes.

## Disadvantages

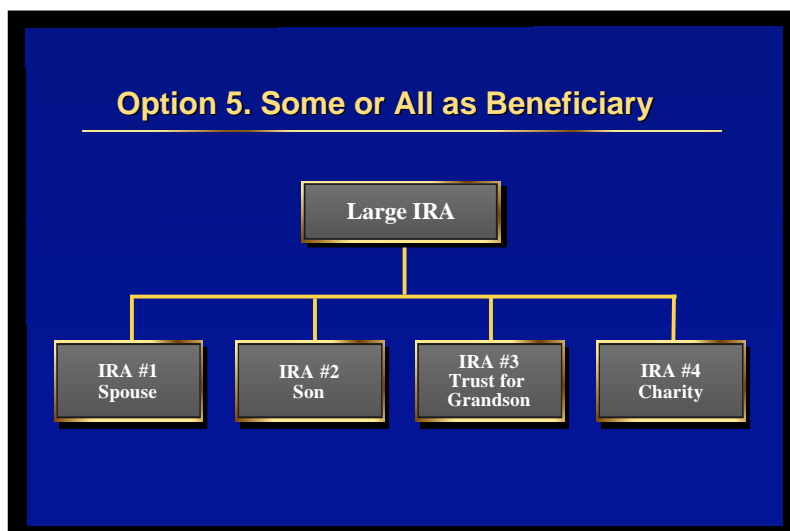
- ◆ No life expectancy
- ◆ No spousal rollover or stretch out

The only downside of naming a charity as beneficiary is that it has no life expectancy. While this would have no impact on the distributions you receive during your lifetime, it could have some implications on distributions after you die.

Also, there is no spousal rollover or stretch out as we have been discussing. However, because a charity is exempt from income taxes, the “tax-deferral” continues indefinitely.

**SPEAKER NOTE:** In the past, if you named a charity as beneficiary you had to use just your life expectancy when determining distributions during your lifetime. This made the distributions higher than they would have been with another beneficiary. But now, even with a charity as your beneficiary, you would use the Uniform Table to determine your Required Minimum Distributions, so this is no longer a problem.

## Option 5. Some or All as Beneficiary



Of course, you don't have to choose just one of these options. You could choose some or all of them—Option 5—by splitting a large IRA into several smaller IRAs and naming a different beneficiary for each one.

You could name several beneficiaries for one IRA, but then you must use the life expectancy of the oldest beneficiary for the entire IRA, just as we explained when you use a trust as beneficiary. This is especially important if a charity is involved. Remember, it has a life expectancy of zero, so the IRS would consider it the oldest beneficiary. Depending on when you die, this could cause the entire IRA to be paid out in just five years.

With separate IRAs—one for each beneficiary—you can use each one's life expectancy. That will give you the maximum stretch out over all their life expectancies. It will also be more fair to your beneficiaries, especially if there is a wide difference in their ages or if you want to include a charity.

When should you divide a large IRA? That will depend on your planning decisions. Doing it now, while you are living, is the cleanest approach. If you die first, your surviving spouse can split your IRA when he/she does a rollover and names new beneficiaries. Your IRA can also be divided into separate accounts in the year after you die. If your money is in an employer-sponsored plan, like a pension or profit sharing plan, you can roll it into an IRA and then split it.

Setting up separate IRAs now will make it a little more complicated to calculate your required minimum distribution each year, because one will have to be figured for each IRA. But you can take the total of these distributions from any IRA you wish. And it can be well worth the trouble. Splitting your IRA like this can also help you save estate taxes.

## Individual Federal Estate Tax Exemption

---

2011 and 2012.....	\$5 million
2013 and thereafter.....	\$ 1 million

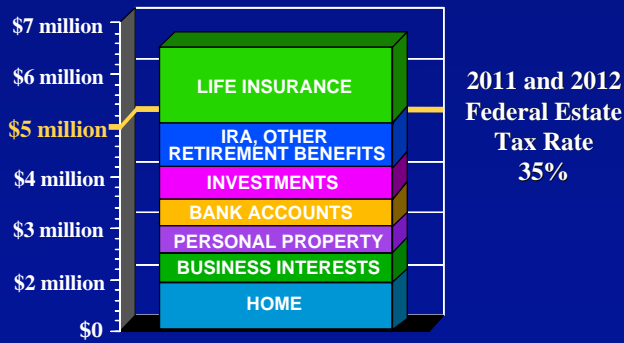
Estate taxes have come up several times in this presentation. I'd like to take a few moments and explain what they are—and why you should care.

Estate taxes are different from, and in addition to, probate costs (which can be avoided with a revocable living trust) and income taxes.

When you die, your estate will have to pay federal estate taxes if its net value is more than the exempt amount set by Congress at that time.

In 2011 and 2012, the federal estate tax exemption is \$5 million, with a 35% tax rate. If Congress does not act again by the end of 2012, on January 1, 2013 the exemption will be \$1 million with a top tax rate of 55%. In addition, some states have their own estate or inheritance tax, so your estate could be exempt from federal tax and still have to pay state tax.

### Determining Your Net Estate



Estate taxes are calculated on the net value of your estate when you die. To determine the current net value of your estate, add your assets, then subtract your debts. As this chart shows, include your home, business interests, bank accounts, investments, personal property, IRAs, retirement plans, and the death benefits from your life insurance.

Let's say you die in 2011 or 2012, when the estate tax exemption is \$5 million. If your net estate is less than this, your estate will not have to pay any estate taxes. But if your net estate is more than \$5 million, every dollar over this amount will be taxed at 35%.

With the exemption so high, you may not be concerned with estate taxes right now. But, it's important to understand how this works, because the exemption may be reduced in the future, as early as 2013, and the value of your estate may increase substantially by the time you die.



Some married couples have tried to avoid estate taxes by leaving everything to the surviving spouse. As long as your spouse is a U.S. citizen, you can leave your entire estate to your spouse and no estate taxes will be due when you die. This is called the unlimited marital deduction. But there can be problems with this. Let's look at an example.

Let's say Bob and Sue together have a net estate of \$10 million, including Bob's IRA, and they both die in 2011 when the federal estate tax exemption is \$5 million. By using the marital deduction and naming his wife Sue as the beneficiary of his IRA, Bob leaves everything to Sue estate tax-free. It's a great deal until Sue dies.

**Leaving  
Everything to  
Your Spouse**

*Estate Taxes*



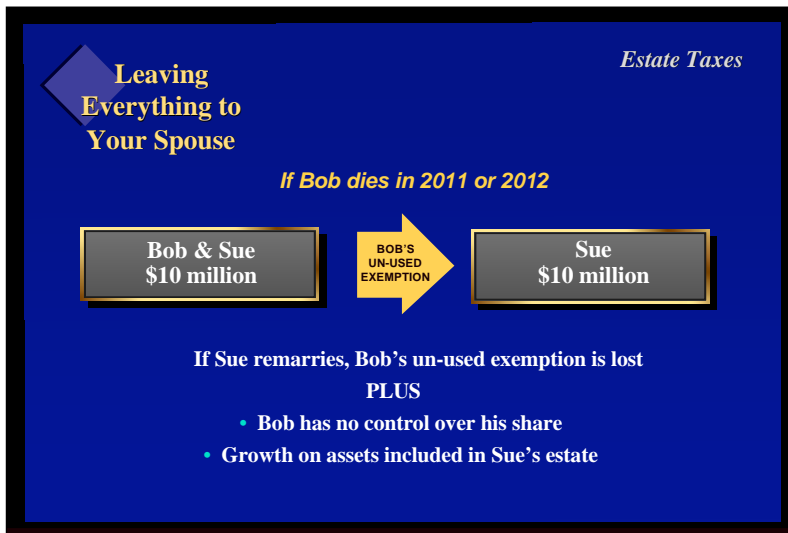
Sue's Net Estate	\$10,000,000
Sue's Federal Estate Tax Exemption	— \$ 5,000,000
Taxable Estate	\$ 5,000,000
Estate Taxes	\$ 1,750,000
Income Taxes	\$ 942,308

Sue's estate of \$10 million can claim her \$5 million exemption. The estate tax bill on the remaining \$5 million? \$1,750,000!

Estate taxes are due in cash, usually within nine months of your death. This can be devastating when most of your liquid assets are in tax-deferred plans.

In this case, because there were no other assets available to pay the estate taxes, their children had to withdraw money from the IRA to pay them. That created an income tax bill—remember, income taxes must be paid whenever you take money out of a tax-deferred plan. Because the estate was in a 35% federal income tax bracket, they had to take out another \$942,308 to pay the federal income taxes on the money they withdrew to pay the estate taxes!

The problem with leaving everything to your spouse is that you waste the estate tax exemption of the spouse who dies first. Remember, everyone is entitled to an exemption. When Bob left his entire estate to Sue, he wasted his exemption.

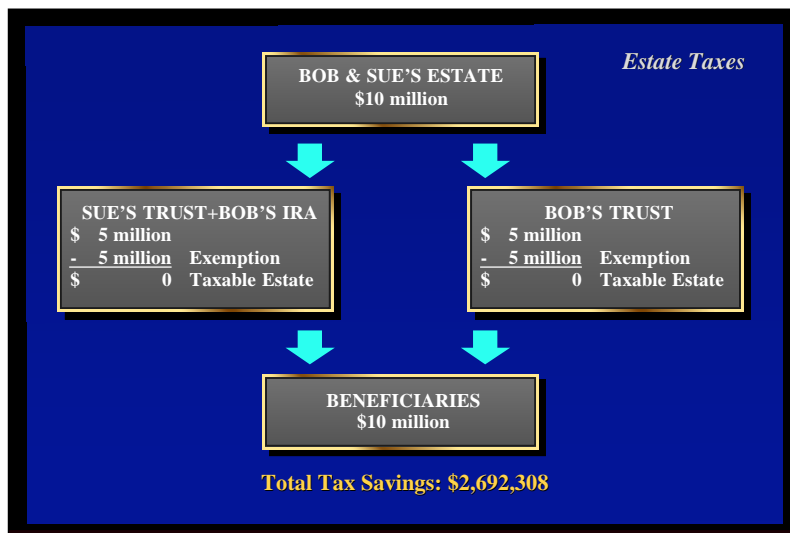


Congress tried to fix this problem. If one spouse dies in 2011 or 2012, the executor of the estate may transfer any unused federal estate tax exemption to the surviving spouse. But there are still problems.

For example, let's say Sue remarries after Bob dies. If Sue outlives her new husband, she will lose all of Bob's unused exemption.

In addition, by leaving everything to Sue, Bob has no control over his share of their estate; Sue can do whatever she wants with the assets, including disinheriting any children Bob may have had from a previous marriage.

And when Sue dies, the entire estate, including any growth on the assets, will be taxed at rates in effect at that time. Remember, if Congress does not act again, in 2013 the estate tax exemption will be \$1 million with a 55% top tax rate.



If Bob and Sue had planned ahead, they could have used both exemptions and saved \$2,692,308 in federal estate and income taxes!\*

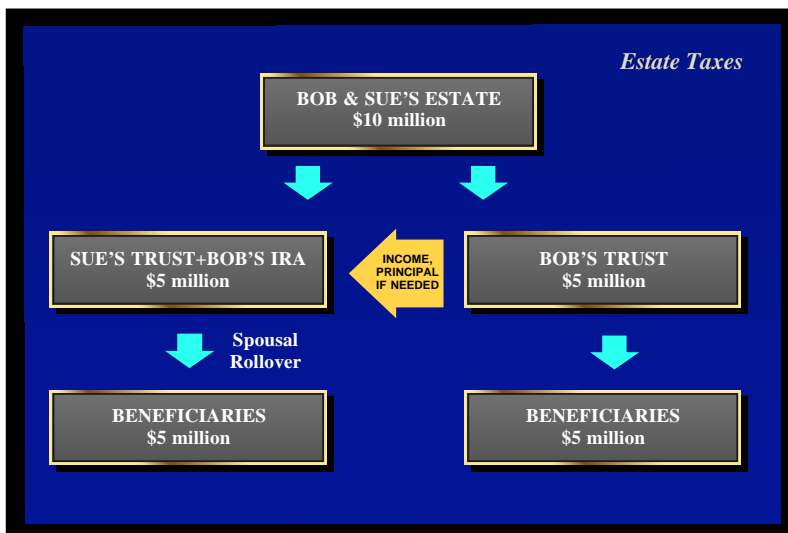
Not For Duplication  
Or Distribution

All they had to do is split their \$10 million estate into two smaller estates of \$5 million each.

When Bob dies, his estate (as shown on the right) uses his \$5 million exemption. And when Sue dies later, her estate (as shown on the left) uses her \$5 million exemption. The result is that both their taxable estates are reduced to \$0, so the full \$10 million can go to their loved ones. Total tax savings? \$2,692,308! Plus, by using trusts as shown here, they save thousands more in probate costs!

There are other benefits to this planning.

\*SPEAKER NOTES: The beneficiaries would receive an income tax deduction for the estate taxes attributable to the IRA. Also, income taxes will eventually have to be paid when money is withdrawn from the IRA (presumably in smaller increments that will incur less tax). But by using both estate tax exemptions, money will not have to be withdrawn now from the IRA to pay the estate taxes. So neither the \$942,308 in income taxes or the \$1,750,000 in estate taxes would have to be paid when the second spouse dies.



First, Sue has complete control over everything in her trust. Plus, she used the spousal rollover option on Bob's IRA, giving her control of that money. But she cannot have complete control over the assets in Bob's trust. If she did, they would have to be included in her estate when she dies.

However, Sue is beneficiary of Bob's trust. As shown here, she can receive income from his trust, and principal from it if needed for health, education, maintenance and support. So, even though she cannot have complete control over the assets in Bob's trust, they are available to provide for her for as long as she lives. After Sue dies, Bob's trust can provide for his other beneficiaries, which could be the same as or different from Sue's beneficiaries.

With this arrangement, Bob keeps control over how his part of their estate is managed and distributed. Also, the assets in his trust are valued and taxed at his death; any appreciation will not be included in Sue's estate.

This is an ideal situation. Bob and Sue fully use both their estate tax exemptions, plus they get the spousal rollover and stretch out on Bob's IRA. It's great planning—as long as Bob dies first.

But what happens if Sue dies first? Depending on the size of Bob's IRA, most or all of the assets will then belong to Bob, so they'll waste some or all of Sue's estate tax exemption. That will cause them to pay more in estate taxes.

It would be nice, from a planning point of view, if we knew which spouse will die first. But most of us don't know. So you've got to assume that either spouse could die first, and do the best planning that you can do.

## **Plan That Either Spouse Could Die First**

1. Divide assets as evenly as possible
2. Use contingent beneficiaries and disclaimers
3. Evaluate income and estate tax consequences

Start by trying to divide your assets as evenly as possible. Look first for any separately owned assets. Then you may need to retitle some jointly owned assets to make sure your shares stay separate after you die. If you still own more than your spouse, consider transferring some assets to your spouse now. But be very careful when you start swapping assets; you could regret this decision later if you and your spouse were to divorce.

Next, you can use contingent beneficiary designations and disclaimers, and let the surviving spouse make planning decisions after one spouse dies. For example, you could name your spouse as first beneficiary of your IRA and your trust as second beneficiary. If you die first, your spouse could decide whether to use the spousal rollover option to save income taxes, or to disclaim (refuse) some of all of your IRA so it could go into your trust and use your estate tax exemption.

Third, it's very important to evaluate both the income and estate tax consequences of all your options. Sometimes it makes sense to split a large IRA in order to fully use the estate tax exemption and get the spousal rollover option on part of it. And sometimes it makes more sense to name the spouse as first beneficiary of the entire IRA, even at the expense of having to pay estate taxes—because the expected tax-deferred growth resulting from the spousal rollover and stretch out will more than make up for the amount paid in estate taxes.

Even with all the planning options available, be prepared that you may not be able to get everything you want. In some situations, especially if most of the assets you and your spouse own are in YOUR tax-deferred plans, there just isn't much you can do—except hope you die first!

## Other Ways to Reduce Estate Taxes

### Reduce the size of your estate now

- Make annual tax-free gifts
- Pay unlimited tuition, medical expenses
- Give to charity
- Use irrevocable life insurance trust
- Use other strategies

### Buy life insurance to pay estate taxes

There are other ways to reduce your estate tax burden, which you can use whether you are married or single.

One way is to reduce the *size* of your estate now, before you die—and there are several ways you can do that. For example, you can make annual tax-free gifts. Each year, you can give up to \$13,000 to as many people as you wish without having to pay a gift tax. If you are married, you and your spouse together can give up to \$26,000 to each person. These amounts are tied to inflation and may increase from time to time.

You can give an unlimited amount for tuition and medical expenses if you give directly to the institution or health care provider.

Making gifts to qualified charities can let you save both estate taxes *and* income taxes because you may also receive a charitable income tax deduction.

You can use an irrevocable life insurance trust to remove the value of your current life insurance policies from your estate. You do have to live for at least three years after the transfer; otherwise the value will be back in your estate.

There are a number of other proven strategies that can be used to transfer assets to your loved ones now, often at discounted values. We may not have them for much longer, because we know the IRS is not fond of them. But we do have them now, and we can use them.

And finally, you can buy life insurance. Depending on your age and health, this can be an inexpensive way to pay estate taxes.

There are right and wrong ways to do all of these, and we can help make sure you do them the right way.

## Benefits of Roth IRA

- ◆ No required distributions during your lifetime
- ◆ Can make contributions after age 70 1/2
- ◆ Tax-FREE distributions to you and beneficiary(ies)
- ◆ Stretch out and spousal rollover okay

Now, what about the Roth IRA?

First, unlike a traditional IRA that requires you to start taking your money out at age 70 1/2, with a Roth IRA there are NO required minimum distributions during your lifetime.

Also, unlike a traditional IRA, you can continue to make contributions to a Roth IRA after you have reached age 70 1/2.

Next, as a general rule, after five years or age 59 1/2, whichever is later, all distributions to you and your beneficiaries will be income tax-free. So your money doesn't grow tax-deferred—it grows tax-FREE!

And finally, you can stretch out a Roth IRA just like a regular IRA. After you die, distributions will be paid over the actual life expectancy of your beneficiary. Your spouse can even do a rollover and name a new beneficiary.

## Roth IRA Conversion

- ◆ Everyone is eligible
- ◆ Partial or full conversion
  - From traditional IRA
  - From eligible retirement plans
- ◆ Income taxes paid in year converted

Because of these benefits, you may want to consider converting some or all of your tax-deferred savings to a Roth IRA...especially now.

Previously, if your adjusted gross income was \$100,000 or more, you did not qualify for the conversion. But the income restriction has been eliminated, so everyone is now eligible to convert some or all of your tax-deferred savings to a Roth IRA.

You can roll over amounts from your traditional IRA and from eligible retirement plans, which include qualified pension, profit sharing or stock bonus plans such as 401(k)s; annuity plans; tax-sheltered annuity plans; and deferred compensation plans of a state or local government. You do not have to roll these into a traditional IRA first.

Of course, you will have to pay income taxes on the amount you convert; it will be included in that year's income. But, remember, all future growth and withdrawals will be tax-free.

## Can You Make Contributions?

- ◆ **Contribution Limits**
  - Up to \$5,000 per year
  - Up to \$6,000 per year if over age 50
- ◆ **Income Limits**
  - **Single or Head of Household: Up to \$107,000 AGI**
  - **Married, Filing Jointly: Up to \$169,000 AGI**

There are still restrictions on who can contribute to a Roth IRA.

The maximum you can currently contribute is \$5,000 per year, unless you are over age 50—in which case you are allowed to contribute up to \$6,000 under a special make-up provision.

To be able to contribute the full amount, you must be a single or head of household taxpayer with up to \$107,000 adjusted gross income, or be a married, filing jointly taxpayer or qualifying widow(er) with up to \$169,000 AGI.\*

Smaller contributions are allowed for single or head of household taxpayers with \$107,000 to \$122,000 AGI and for married couples with \$169,000 to \$179,000 AGI.

\*SPEAKER NOTE: There are special rules for married couples filing separately. If you did not live with your spouse at any time during the year and you file a separate return, your filing status for this purpose is single. If you did live with your spouse at any time during the year, you are not eligible to convert an existing IRA to a Roth IRA, and if your AGI is more than \$10,000, you cannot contribute to a Roth IRA.

## Jump Start Your Children's (Grandchildren's) Retirement Fund

- ◆ 100% of child's earnings, up to \$5,000/yr
- ◆ Over 59 1/2 : tax-free withdrawals
- ◆ Under 59 1/2 : no taxes, penalty until all contributions withdrawn
- ◆ Special breaks for college, home
- ◆ Child has control

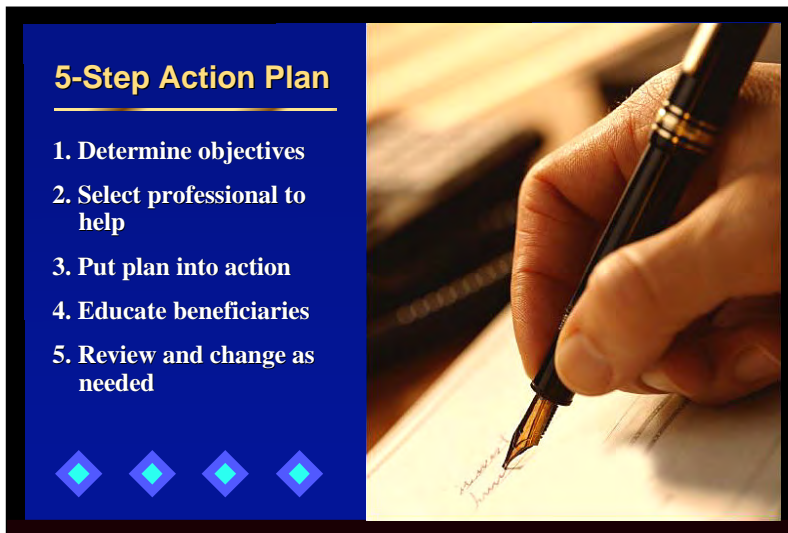
You can also jump start a retirement fund for your children and grandchildren.

Each year, you can contribute 100% of the child's earnings, up to \$5,000. The results can be phenomenal.

For example, your enterprising grandson is earning at least \$5,000 every year. You start making \$5,000 annual contributions to his Roth IRA when he is age 15. He continues them when he starts earning more money. So \$5,000 contributions are made every year for 50 years, until he is age 65. Assuming 7% growth each year, his retirement fund at age 65 would be worth over \$2 million ...specifically, \$2,032,645! And, after he reaches age 59 1/2, it's all tax-FREE!

Withdrawals before age 59 1/2 are considered contributions first, then earnings. So there is no income tax or 10% penalty until all contributions have been withdrawn from the account. Money can be withdrawn at any time without penalty for college expenses. And the account can be tapped tax-free at any time for up to \$10,000 to buy or rebuild a home.

So, this is quite a remarkable nest egg you would be setting up. Just keep in mind that the child will be the owner of the IRA, so he or she will have full control over the money at legal age.



We've covered a lot of information in this presentation. If you're wondering where to begin, start with our five-step action plan.

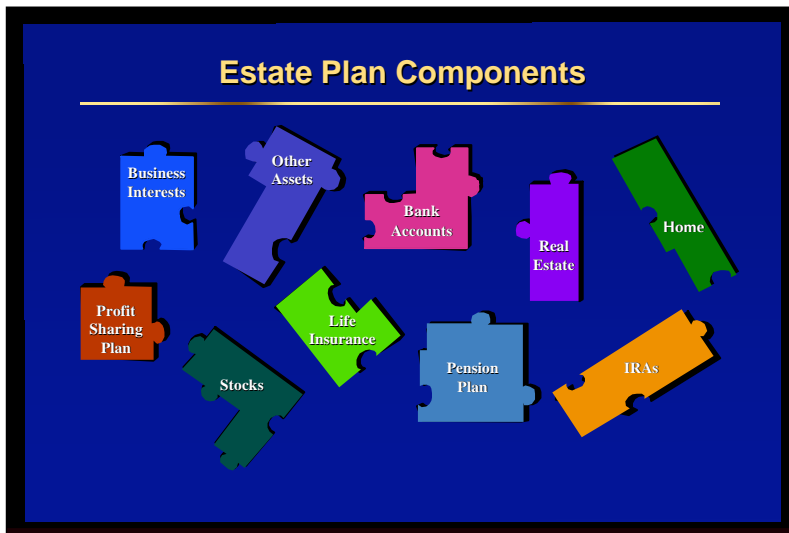
1. Determine your objectives. Whom do you want to receive this money after you die? Is getting the maximum stretch out important to you?

2. Select a qualified professional to help. The laws are complicated, and there is often a lot of money at stake. Find someone with whom you will be comfortable sharing this information; someone who can answer your questions and help you decide which strategies are best for you.

3. Put your plan into action. Some employer-sponsored plans—like 401(k)s, pensions and profit sharing plans—have restrictions on beneficiary options. But, under a new rule, any beneficiary may now inherit employer plan assets and roll them into an IRA in the name of the decedent, continuing the tax-deferred growth over the beneficiary's own life expectancy. Certain restrictions, of course, will apply. If your plan will not let you do what you want, rolling your money into an IRA will usually give you more options. If your money is already in an IRA and the institution will not let you do what you want, move your IRA to one that will. You may also want to split a large IRA into smaller ones.

4. Educate your beneficiaries. If they are late in taking the first required distribution after you die, or if they change the account name from yours to theirs, the full account may have to be paid out within five years after you die!

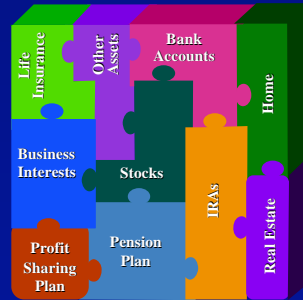
5. Review and change your plan as needed. For example, if your spouse dies, you may need to name another beneficiary.



Finally, keep in mind that whom you name as beneficiary of your tax-deferred plans is just one of several pieces that must fit together for a successful estate plan.

Our years of experience have clearly shown that the best results are generated when all the pieces—tax-deferred accounts, IRAs, life insurance, investments, business interests, real estate and other assets—fit together in a coordinated plan.

## Successful Estate Plan



At (INSERT NAME OF YOUR FIRM), we focus on solving problems. We can help you fit all the pieces together into a successful estate plan.

I want to thank you again for coming.

Now, let's get to your questions.

**SPEAKER NOTE:** The brochures *Understanding Who Should Be Beneficiary of Your IRA* and *Understanding Estate Taxes* are available in quantity from Schumacher Publishing, Inc. Samples are included with your presentation package.