

Avoiding Common IRA Owner Mistakes

A no-nonsense guide to maximizing IRA distributions for you and your loved ones.

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“No one is useless in this world who lightens the burdens of another.”

- Charles Dickens

How many times have you heard the old saying, with change comes opportunity?

Never has this been truer than when it comes to the changes with IRA laws and taxation. There have been several major changes to IRA tax laws and regulations, including the Economic Growth and Tax Relief Reconciliation Act of 2001, Jobs and Growth Tax Relief Reconciliation Act of 2003, and culminating with the Pension Protection Act signed into law on August 17th, 2006. What is the government telling us with these constant changes to IRA rules and regulations? They are telling us, ***“We need you to save more for your retirement.”***

Corporate pension plans have greatly diminished over the years; the future of social security is in question and because of this, the government has given IRA owners every opportunity to maximize not only their retirement savings, but use their IRA to provide for future generations. The government may NOT be able to meet the retirement needs of your children and grandchildren. (They may not be able to meet your needs.) Through these constant changes to IRA rules, the government is sending a clear message: **the American public needs to accept more responsibility for their own retirement.**

Your IRA can be a very powerful financial tool that can provide income for you and your loved ones, if you know how to take advantage of the opportunities the government has given you. And with this uncertainty facing us, it has become necessary that you educate yourself on how you can protect and provide for you and your loved ones.

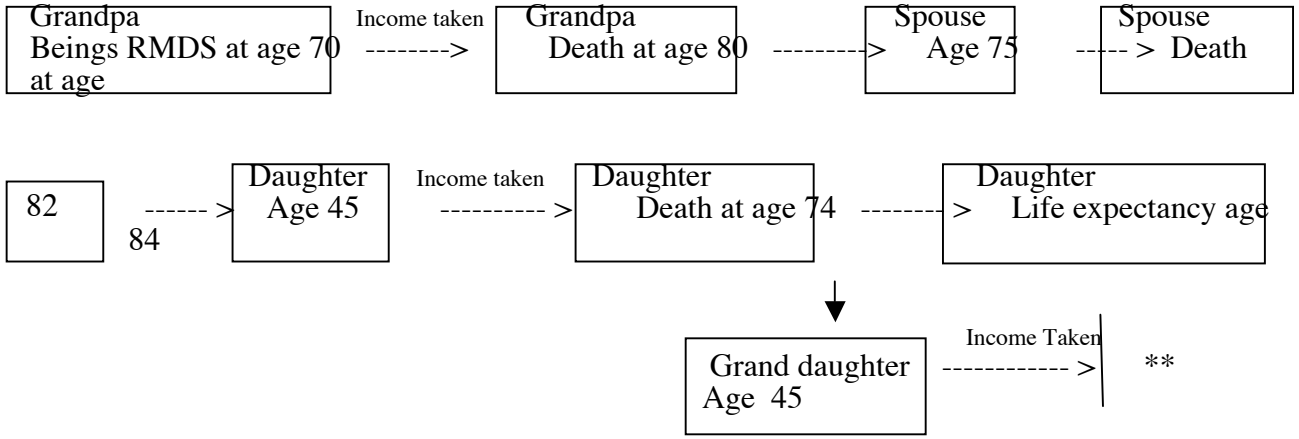
This educational guide has been developed to help you do exactly that. Our goal is to help you understand the opportunities available to you with your IRA, because unfortunately, if you don't take advantage of them, the long term impact on your retirement and the retirement of your children and grandchildren is at risk.

If it's important to you that you take care of your loved ones after you've passed away, please take 10 minutes to read and understand this guide. You will learn how to maximize the distributions from your IRA so you can provide income for generations to come.

The opportunity you have to create a lasting legacy is right there waiting for you, so let's get to work.

Albert Einstein said “The most powerful force in the universe is compound interest.” One of the reasons your IRA can be a great accumulation tool for retirement is because of this powerful force. You don't pay any taxes on your IRA until you start making withdrawals. This allows your IRA to take advantage of compounding interest, which means you earn interest three ways, on the investments/deposits into your IRA, on the interest those investments earn and on money that normally would have been paid in taxes.

Because of this triple compounding effect, it is typically a smart idea to take income from other sources, and defer taking income from you IRA until you absolutely have to. How long will that be? Until you reach the age of 70 . After your turn 70 , the government forces you to take a required minimum distribution by April 1st of the year after you turned 70 . This minimum amount will be based on factors such as your age, the total balance of all your qualified assets,



** The maximum distribution period is the remaining fixed life expectancy of the first non-spouse beneficiary

If your children inherit your IRA in one lump sum, they will always pay ordinary income taxes on the entire balance. That means up to 35% of your IRA could disappear immediately. There could also be potential estate taxes and penalty taxes owed depending on your situation.



With proper planning, instead of taking your IRA in one lump sum and paying between 15-40 percent of it to the government, the government now allows your children (or other named beneficiaries) to take withdrawals from your IRA based on **THEIR** life expectancy...

By doing this, your beneficiaries can continue the power of tax deferral over time, and maximize the amount of money distributed from your IRA. Remember what Einstein said, compound interest is the most powerful force in the universe, with proper planning, you can put this force to work for you and your loved ones.

You will often hear this concept referred to as multi-generation IRA, legacy IRA, extended IRA, or Stretch IRA. We will refer to it throughout this guide as “stretch” IRA. It is important to realize, a “stretch” IRA is not a new kind of IRA, it is very simply, a strategy that allows you to pass your IRA down to your heirs and allows them to take distributions over their lifetime, instead of in one lump sum.

You Must Be Careful

There are two things that can destroy your good intentions of stretch distribution planning; your beneficiaries and your IRA custodian. It is crucial you have your IRA beneficiary designation form reviewed every year to make sure everything is up to date. If you have not reviewed your beneficiary designation form within the past two years (especially after the recent IRA tax law changes on August 17th, 2006) you must do this immediately.

Your heirs will potentially have the option to withdraw your entire IRA balance in one lump sum upon your death. This may or may not concern you. The biggest problem is they will pay up to 35% of the balance immediately in taxes, and won't be able to take advantage of the powerful tax deferral offered by your IRA. Also, there is always a possibility that your children could blow the inheritance that you worked so hard to build. Most of our clients didn't sacrifice and save their entire life, saving money in their IRA, just to pay 35% of it to the government, and then have their kids go blow the rest on a brand new Porsche. **Did you?**

Also, your IRA custodian (the company that controls your IRA) may have strict rules governing the distribution of your IRA assets. It is not uncommon for an IRA custodian to not administer the stretch distribution of your IRA, and instead, require the entire balance to be distributed over a five year period, therefore reducing the power of tax deferral. Each custodian can have different rules, so it's important you understand how your IRA custodian will handle your IRA after you pass away. For a list of ten questions that you should always ask your IRA custodian, contact our office immediately.

How can I avoid these two pitfalls?

There are a couple things you should consider when planning for the distribution of your IRA to your heirs. First, you might consider using a trust to control the distribution of your IRA assets. Second, you also should consider rolling over your IRA assets to a custodian that will administer the distribution of your IRA based on your wishes and desires.

What you need to know about a trust

A trust can be a very valuable tool in IRA distribution planning, but it can also be a potential disaster if not set up correctly. Typically, to be able to “stretch” your IRA to your beneficiaries, it requires that you name a natural person. What happens if you don't name a natural person? Simple, the entire IRA balance will be required to be paid out over five years, and your heirs will be hit with a heavy tax burden and lose the powerful compound interest benefits of your IRA. Only very specific types of trusts will qualify as a natural person, and allow your heirs to receive lifetime payments. The four guidelines for a trust to qualify are it must be valid under state law, it must be irrevocable (not able to be changed) upon the death of the IRA owner, your

beneficiaries must be identifiable from the trust instrument and the documentation requirement must be satisfied. While this may sound like a lot of work (it's actually fairly simple if you use an attorney who specializes in this area of trust), the potential benefits are too tremendous not to consider a trust. In addition to maximizing the income stretch-out of your IRA for your loved ones, a trust can also provide many other additional benefits.

Here are some of the ways a trust may help protect your IRA:

- Gives you total control over who will inherit your IRA after the primary beneficiary (important if primary beneficiary is your spouse).
- Can help avoid estate taxes at the death of a non-spouse beneficiary.
- Protects your IRA from the out-laws (ex in-laws). Your children's spouses could take up to half of YOUR IRA in a divorce. Even if your children aren't currently married, a future spouse could sniff out your money, and marry them for the wrong reasons.
- Protects your beneficiaries from themselves. You may have a child who is not good with money, or has some bad habits. If they receive a large sum of money when you pass away, it could be a disaster.
- May protect beneficiary that is receiving government benefits.
- May protect creditors from seizing your IRA away from your heirs.

If you are concerned about any of these areas, setting up a trust as your IRA beneficiary may be a good idea.

What you need to know about an IRA rollover

One important thing to consider when rolling over your IRA is how the custodian will handle the distribution of your assets. If they will not distribute your IRA over your beneficiaries' life expectancy, you should strongly consider rolling your IRA to a custodian that will honor your wishes.

Here are some other potential advantages to rolling over your IRA:

- You may have more choices on where to invest your IRA money.
- There may be more options on planning the distribution of your assets.
- There may be the potential for a conversion to a Roth IRA.
- You will have the ability to consolidate your accounts, and keep better track of your beneficiaries (there are times where keeping your IRA accounts separate could make more sense).
- You will have the ability to work with someone that specializes in IRA planning and can offer objective advice.

Before you roll over your IRA, it's important to talk with a qualified advisor, accountant or attorney about the advantages and disadvantages.

Selecting the right beneficiary

“You don’t choose your family. They are God’s gift to you, as you are to them.”

- Desmond Tutu

You have an opportunity to give your family a tremendous gift with your IRA if you take the appropriate steps. The first and most important step is correctly designating your beneficiaries. If they are not set up correctly you could disinherit your loved ones, even your spouse.

There are two terms that are important to know when you fill out beneficiary designation form; Per capita and Per stirpes.

If you select Per capita on your beneficiary designation form, it is possible to disinherit your family members.

Selecting Per stirped makes it very unlikely that you will disinherit your family members. Per stirpes basically says, if one of your children pass away, the money should be paid to their children (your grandchildren). This can be an easy way to pass wealth from generation to generation.

On the following pages of this guide you will find an IRA Beneficiary Review Worksheet. This worksheet is designed to help you select and keep track of your beneficiaries and how you want your IRA assets distributed to them. Please take the time to complete this worksheet, and after you’ve completed it, contact our office and we can work with you to help you accomplish your distribution goals and make sure the money goes to the people you want, in the way you want.

In closing, you and your loved ones are facing tremendous challenges when it comes to retirement planning. The decline of corporate pension plans coupled with the uncertain future of social security has made it imperative that you do everything you can to provide for you and your family today, and long after you pass. Fortunately, you have a tremendous opportunity sitting in your lap with your IRA, but you must take action immediately. If you would like to schedule a free IRA consultation, please contact our office today.

We will help you:

- Review your current beneficiary designations.
- Select the correct beneficiaries to insure your wishes are met and your family is provided for.
- Determine if a trust would be beneficial in planning for the distribution of your IRA.
- Discuss the potential advantages of an IRA rollover.
- Determine when you must take your required minimum distributions and how much they will be.
- And most importantly, help you take care of your family and turn your IRA into a blessing that provides for them long after you have passed.

We hope this educational guide was able to provide you with a vision of how your IRA can provide a lifetime of income for you and your loved ones. But remember, **“A vision without action is a daydream; action without vision is a nightmare.”**

If you love your family, please take action, and guarantee your IRA will provide for them, because years from now, they may not have other options.

This workbook is a guide to help you determine who your beneficiaries are, and more importantly, how your IRA will be distributed to them.

Please complete this worksheet and bring it in with you so we can develop a strategy to accomplish your goals for your loved ones.

Identify your beneficiaries	Tell me about each of them	What, more than anything do you wish for that person?	From 1-10 how comfortable are you that your beneficiaries will be able to handle a lump-sum distribution to fulfill your wish for them?	How would you like to leave your financial legacy to your beneficiaries to ensure your wishes are met?
John	Oldest son, age 47 Two Children: Dylan age 15, Carlie, age 12	To help John reach his retirement goals, and help pay for his children's college education	John is responsible, but I would like to take advantage of the distribution strategy that would maximize the amount of income I pass on to him and his children	<ul style="list-style-type: none"> • Immediate access • Lifetime income • Life expectancy payments • Structured in will or trust
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IMPORTANT: Completing this workbook will **NOT** change any of your current beneficiary designations. In order to make changes, please contact our office.



Robert A. Sagar is the Founder and President of The Senior Financial Center. He is a true “out of the box” financial professional. His creative ideas and solutions helped him win numerous regional and national awards for his “dedication and exemplary service.” Bob speaks at many conferences through the year, teaching financial advisors how to provide “different and better” service to senior clients.

Bob is a real specialist. He’s a frequent guest on radio and TV, discussing issues important to retirees. He has recently been featured on Eyewitness News and ABC News “Good Money” Show. He had also been featured in *Newsweek*, *Time* and *U.S. News & World Report*, three years in a row for his outstanding service to the business community.

Bob is the author of the book *Financial Success for Seniors*. He hosted the popular radio show “Senior Straight Talk.” And, he created America’s first financial franchise model exclusively serving people 60 and better.

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