Retirement Planning Commentary
Required Minimum Distributions & Beneficiary Designations

Required Minimum Distributions Suspended For Tax Year 2009*:* All people who have qualified assets in either a traditional IRA or a 401(k) plan who have reached the age of 70 ½ have a requirement to withdraw an amount from that plan based on their expected remaining lifespan each year.

As such, a 75 year old male with a $500,000 balance may have an actuarially determined lifespan of 13 years. Therefore, the government usually requires the owner of the account to withdraw about $38,500 ($500,000 divided by 13 years). This number is then re-calculated each year based upon the December 31st value of the retirement account and the expected remaining lifespan.

The government likes this because it forces tax-deferred funds to become taxable. For a 75 year old person, this can be a double edged sword since it can create quite a bit of taxable income.

Given the state of the financial markets, ***the government has suspended the rule requiring required minimum distributions for 2009***. As such, retirement plan owners can allow those assets to stay invested and hopefully benefit from the financial recovery we are starting to experience. This can also mean a lower income tax bill for 2009 since you will not have this distribution forced upon you.

Make sure to factor this change into your 2009 tax planning.

Retirement Plan Beneficiary Planning: The ***Pension Protection Act of 2006*** brought us important changes that you need to consider regarding your Individual Retirement Accounts (IRA's) and other qualified retirement plans, such as 401(k) plans.

In the past, if you were married you could name your spouse as the beneficiary of your IRA or retirement plan. When you died your spouse would be able to inherit the IRA or roll the 401(k) into an IRA and continue to enjoy the benefits of tax deferral.

However, previously if a non-spouse was named as beneficiary of an IRA or a 401(k), and you died, the assets within the account were required to be withdrawn and income tax paid before your heirs could get the money. Additionally, your heirs could not continue to have the assets in an IRA which provide tax deferral of earnings as well as an important level of creditor protection.

As such, prior to the 2006 Act, a non-spouse inheriting assets from an IRA or a 401(k) had to pay income taxes on the plan assets. This often diminished the amount your heirs would receive substantially.

Now, however, the 2006 Pension Act changed some of those rules. As such, **a non-spouse can inherit an IRA and keep the assets within an IRA. This allows your heirs to benefit from deferred taxation and creditor protection.**

Let's assume that your forty year old child inherits your $500,000 IRA when you pass away. The IRS will require that your child withdraw a portion of the money based the value of the account divided by the child's expected lifespan (probably 45 years). As such, the assets in the Inherited IRA will benefit from many more years of tax deferred growth and in the process help your heirs save for their own retirement. While this is a huge benefit, it means that ***your Beneficiary Designations must be properly coordinated***.

It is typical that most people will continue to name their spouse as the primary beneficiary of their retirement assets.

However**, it is extremely important that you evaluate who will receive the retirement plan assets after your spouse (or after you if your spouse dies first) passes away.** Additionally, it is imperative that you understand that Beneficiary Designations supersede the language in your Wills. As such, your Beneficiary Designations need to be coordinated with your overall estate plan in mind.

This is a great opportunity to name other, younger heirs, of your retirement assets so that your heirs can save a bundle on taxes and enjoy creditor protection of assets.

Please call with questions.

Sincerely,

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