WORK \ FINANCE \ LIFE

The 10 Best Power Lunch Spots; The NHL Gambles on Vegas; Why Wall Street Needs Women

BlackRock's Larry Fink on Power; How Jerry Brown Leads California; Opportunities in Africa

The Case for Testosterone; Five Cars Built for Speed; Where the Powerful Live

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE

2016 POWER 100

THE MOST POWERFUL MEN AND WOMEN IN GLOBAL FINANCE

WORTH.COM

VOLUME 25 | EDITION 05

What should I know about estate planning for affluent investors' IRAs and other retirement accounts?

BY TIMOTHY E. FLATLEY
AND MATT CROLEY

Clockwise, from top left: *Sean M. Flatley, Michelle Smaltz, Timothy E. Flatley, Lisa Curcio*

STERLING INVESTMENT ADVISORS LTD. | 1055 Westlakes Drive, Suite 150, Berwyn, PA 19312 | 610.560.0400 877.430.7382

FEATURED ADVISOR
Timothy E. Flatley, ChFC®, President

ASSETS UNDER MANAGEMENT
Available on request

MINIMUM FEE FOR INITIAL MEETING
None required

FINANCIAL SERVICES EXPERIENCE
30 years

COMPENSATION METHOD
Asset-based, fixed and hourly fees

PRIMARY CUSTODIAN FOR INVESTOR ASSETS
Charles Schwab

PROFESSIONAL SERVICES PROVIDED
Planning, investment-advisory and money-management services

ASSOCIATION MEMBERSHIP
Association for Corporate Growth

EMAIL
flatleyt@sterling-advisors.com

WEBSITE
www.sterling-advisors.com

ILLUSTRATION BY KEVIN SPROULS

For those who have amassed a significant balance in an IRA, 401(k) or other employer-sponsored retirement account, it is essential to structure beneficiary choices in a manner that reflects their desired estate plan and takes advantage of the inherent tax benefits.

With the federal estate-tax rate now at 40 percent, death-tax rates as high as 16 percent in many states and federal income-tax rates as high as 43.4 percent, retirement assets can deplete quickly once they have been left to heirs.

There are countless stories of retirement money being left to unintended heirs or being taxed at unnecessarily high rates because the original account owner either failed to update his or her beneficiaries or did not understand the ramifications of that decision.

We spoke with John A. Terrill, an estate attorney and partner at Heckscher, Teillon, Terrill & Sager P.C., in West Conshohocken, Pennsylvania, for his perspective on the issue. Terrill is a fellow and treasurer of the American College of Trust and Estate Counsel, the most recognized organization of trust and estate lawyers in the country.

In our conversation, Terrill emphasized the importance of the "stretch" feature of an IRA as a method for maximizing the tax deferral. In this context, "stretch" refers to the ability of a beneficiary to use his or her own life expectancy when calculating required minimum distributions from an inherited IRA; that expectancy is often much longer for a child than it was for the parent.

> "Beneficiary choices related to large retirement accounts are as much a matter of arithmetic calculations as they are philosophical decisions. (John A. Terrill, Esq.)"

Stretching the distribution schedule allows the assets to grow, tax-deferred, longer than they would have otherwise. The "stretch could be magnified if grandchildren or trusts for grandchildren are named as beneficiaries," Terrill explained.

Of course, you must consider if the needs of your children can be met through other means while you are deciding whether or not to bypass them as beneficiaries. We recommend that you consult with an experienced estate attorney to ensure you comply with generation-skipping transfer-tax laws when grandchildren factor into the equation.

Please note, too, that not all employer-sponsored retirement plans offer the stretch provision to nonspouse beneficiaries, which should be a consideration when you are evaluating the merits of rolling your plan into an IRA.

If you have concerns as to how your descendants will manage their IRA inheritance, certain types of trusts may be established and named as the beneficiary. "Spendthrift" provisions also can be made to prevent beneficiaries from quickly depleting assets in an inefficient manner.

Terrill warned that websites and software meant to design trusts are often not fully versed in the intricacies of federal income tax law and can unwittingly create a trust that fails to qualify as a proper beneficiary. The terms of the trust must be specifically structured if the intent is to preserve the stretch feature and avoid high trust-tax rates.

Another critical beneficiary determination pertains to charitable gifting. For individuals who intend to donate to their favorite charities, it may make sense to do so through an IRA beneficiary designation. Terrill pointed out that naming the charity as an IRA beneficiary eliminates the income tax which would eventually be due on any distributions that would otherwise have been made to individuals.

However, the donor should also consider the possible benefit of the tax deduction available for donations made from nonretirement assets while he or she is still living.

According to Terrill, what's needed is one big number-crunching exercise; and, here, the beneficiary choices related to large retirement accounts are as much a matter of "arithmetic calculations as they are philosophical decisions."

In short, you must weigh the tax benefits and your income needs against the legacy you wish to leave. ●

Matt Croley, director of operations at Sterling Investment Advisors, Ltd., coauthored this article.

ABOUT US

STERLING INVESTMENT ADVISORS RECOGNIZES THAT EVERY SITUATION—EDUCATING CHILDREN, BUILDING RETIREMENT WEALTH, INSURING AGAINST LOSS, REDUCING TAXES, PLANNING ESTATES, SETTING UP TRUSTS, ETC.—BRINGS ITS OWN COMPLEXITIES. The objective of the firm's team concept is to help clients develop a support group of professionals to delegate the management of these issues. Sterling Investment Advisors, an independent wealth-management firm, is recognized as one of the Top 10 Independent Investment Advisors in Philadelphia by *Barron's* WCO. The firm was named three times to the Philadelphia 100, honoring "the fastest-growing privately held entrepreneurial companies in the Philadelphia region"; has 30 years of investment experience with an independent orientation; and utilizes proprietary trading strategies, with assets held at Charles Schwab.

Please visit Sterling Investment Advisors' website at www.sterling-advisors.com and view the exclusive welcome letter for *Worth* magazine readers. ●

Timothy E. Flatley, ChFC®
President

Sterling Investment Advisors Ltd.
1055 Westlakes Drive, Suite 150
Berwyn, PA 19312
Tel. 610.560.0400 | 877.430.7382

flatleyt@sterling-advisors.com
www.sterling-advisors.com

REPRINTED FROM
Worth®
THE EVOLUTION OF FINANCIAL INTELLIGENCE

Sterling Investment Advisors Ltd. is featured in Worth® 2016 Leading Wealth Advisors™, a special section in every edition of Worth® magazine. All persons and firms appearing in this section have completed questionnaires, have been vetted by an advisory group following submission by Worth®, and thereafter paid the standard fees to Worth® to be featured in this section. The information contained herein is for informational purposes, and although the list of advisors presented in this section is drawn from sources believed to be reliable and independently reviewed, the accuracy or completeness of this information is not guaranteed. No person or firm listed in this section should be construed as an endorsement by Worth®, and Worth® will not be responsible for the performance, acts or omissions of any such advisor. It should not be assumed that the past performance of any advisors featured in this special section will equal or be an indicator of future performance. Worth®, a publication of the Worth Group LLC, is a financial publisher and does not recommend or endorse investment, legal or tax advisors, investment strategies or particular investments. Those seeking specific investment advice should consider a qualified and licensed investment professional. Worth® is a registered trademark of the Worth Group LLC.