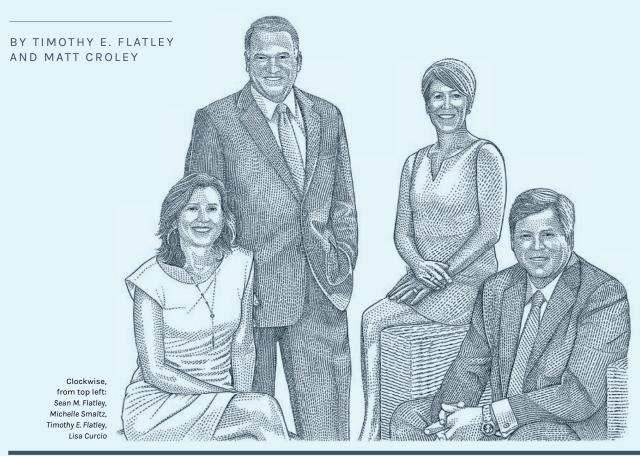


# What should I know about estate planning for affluent investors' IRAs and other retirement accounts?



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or 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, Pennyslvania, 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.

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



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 employersponsored retirement plans offer the stretch 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.

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