PRIMARY FINANCIAL PRESENTS

PROTECTING

YOURSELF, YOUR ASSETS & YOUR HEIRS

Protecting Yourself, Your Assets & Your Heirs - *a retirement distribution strategy can make all the difference.*

Presented by: Carl DeMarco, MBA, ChFC®

After a lifetime of planning and saving for retirement, the big moment has finally arrived – the day you can start doing all of the things you've always wanted to do like spending time with family, traveling strictly for pleasure, or maybe even building that patio out back. And because you had the foresight to tuck money away in IRAs, annuities, 401(k) and other retirement savings plans, you're feeling pretty good about your overall financial situation.

That's great. But you're not done yet.

Now that you've reached retirement, you want to ensure that the funds you've set aside will not only last for the rest of your life, but that at your death, whatever amounts remain unspent will be passed on to your heirs quickly, privately, and as tax efficiently as possible. In other words, now that you've been successful in saving for retirement, you'll want to be equally as successful in developing, and implementing, a retirement distribution strategy.

A carefully thought out retirement distribution strategy will not only help ensure that you don't outlive your assets, but it will also help you avoid paying unnecessary taxes and/or penalties in the event you don't get around to spending them. There are a number of regulations governing when you can (or must!) begin taking distributions from your qualified retirement accounts, and failure to abide by these regulations can result in hefty tax penalties.

As you put together a retirement distribution strategy, there are many things to consider. What will your ongoing expenses be? How will inflation affect your spending power? Will you be able to afford ever-increasing property taxes and home maintenance costs? What about potential health-related or long-term care expenses? And finally, what about leaving something behind for your heirs or providing for a favorite charity?

Of course there's no way of knowing what will happen with the economy, with your personal health, or how long you will live, but it is nevertheless very important that all of these factors be incorporated into your strategy.

A good place to start is to calculate your anticipated income from sources other than your savings (e.g. social security, a company pension, etc.), then determine your anticipated expenses. If you're like many successful people, you may be pleasantly surprised to find that you'll require very little, or even zero, access to your qualified retirement accounts. Unfortunately, that doesn't mean you can just leave them as they are to continue enjoying tax-deferred growth. Under current tax law, once you reach age 70½, you must begin taking distributions from your qualified retirement accounts* even if you don't need (or want!) them.Such distributions are generally referred to as "required minimum distributions" (RMDs).

An RMD is the minimum amount of money that you must withdraw from your qualified retirement accounts each year. Your first RMD must be taken by April 1 of the year after you reach age 70½, and subsequent RMDs must be taken every year thereafter by December 31. Failure to take an RMD in any given year will result in a 50 percent excise tax on the amount not taken – a fairly severe penalty.

One solution to this problem is a special product known as a "Stretch IRA." Stretch IRAs are designed for successful individuals who do not

anticipate needing their qualified retirement assets, and who would rather pass them on to their children or grandchildren. With a stretch IRA, you can not only spread the distribution of your qualified assets out over many years, but you can also control who receives your assets, and you can continue enjoying tax-deferred growth for as long as possible.

Here's how the concept works: First, you consolidate your qualified assets into an IRA. Second, you name a young person – a grandchild for example - as your primary beneficiary. When you reach age 70½, your initial RMD would be based on your life expectancy as determined by the Internal Revenue Service's "Uniform RMD Table." At your death, however, the RMD would be recalculated based on your beneficiary's life expectancy. Depending upon his or her age at the time, it is very possible that the tax-deferred growth generated by your IRA assets could outpace his or hers RMD for quite a number of years. The end result: your IRA assets continue to grow even as your beneficiary draws a lifetime income.

Another option would be to name your spouse as your primary beneficiary and your grandchild as contingent beneficiary. At your death, if he/she needed the income, your spouse could opt to inherit your IRA and begin taking RMDs based on his/her life expectancy. If he/she didn't need the income, however, he/she could disclaim the inheritance, in which case the IRA would pass to your contingent beneficiary. Your spouse would have until September 30 of the year following your death to make that decision.

There is a catch though: while a Stretch IRA can extend both the growth and distribution of your assets over many years, those same assets, if they're left at death to an individual other than your spouse, may be subject to both income and estate taxation. But there's a potential solution to this problem, too: life insurance.

If you're taking RMDs because you have to – because you've reached age 70½ and the government is requiring it – and if you don't have a current need for the income those distributions are providing, you could use those dollars to purchase a life insurance policy. At your death, the proceeds from your policy could be paid to your spouse, replacing the value of the IRA assets you are passing to your children or grandchildren; or they could be paid to your children or grandchildren for the purpose of satisfying any estate taxes which come due following your death. This strategy essentially allows you to pass your IRA assets on intact to heirs other than your spouse. (There are a variety of ownership arrangements relative to your life insurance policy that could also help keep the proceeds out of both you, and your beneficiary's taxable estate. A qualified tax professional can advise you in this matter.)

If your big day has finally arrived - congratulations. You're about to embark on what could be the finest years of your life in retirement. But remember, maintaining your financial security doesn't happen by accident. It requires examining your current circumstances; identifying your goals and objectives; developing a plan to achieve those goals and objectives; and taking action to implement your plan.

* The required beginning date for qualified plans under IRC Section 401(k), 401(a) and 403(b) is the later of April 1 of the calendar year following the calendar year in which the employee attains age 70½ or April 1 of the calendar year following the calendar year in which the employee retires.Employees who are more than 5 percent owners of the employer sponsoring the plan must follow IRA rules and begin taking RMD at 70½ even if still working.

This information should not be construed as tax advice applicable to each individual.Please consult a qualified tax advisor regarding your individual circumstances.

PRIMARY FINANCIAL

Carl DeMarco, MBA, ChFC®

732-417-5358

cdemarco@primaryfinancial.net

www.carldemarco.com