IRA BENEFICIARY PLANNING

PREPARING YOUR FINANCIAL LEGACY STARTS NOW

True, we can't know what the future holds. But by designating a proper IRA beneficiary, you can help ensure your hard-earned wealth lives on long after you do—in the hands of those you care about most.

The importance of proper IRA beneficiary designations is frequently overlooked. Simply designating your beneficiaries and keeping your designations up to date is an important first step, but there are two other considerations that should not be ignored: the tax liability your beneficiaries will face and your ability to control how and when your beneficiaries can access their inheritance.

TAXATION OF INHERITED IRA ASSETS

The IRS permits several distribution options for inherited IRAs. Distributions are subject to taxation in the year they are received.[1,2]

LUMP SUM—TAXES DUE IN ONE YEAR

The entire IRA can be withdrawn in a lump-sum payment.

ALL OUT IN FIVE YEARS

The beneficiary must receive all payments by the end of the year containing the fifth anniversary of the owner's death. Taxes will be due for payments in the year they are received. (This option is not available if the owner had reached his or her required beginning date).

ANNUITIZATION

This option is available from annuity contracts and can provide a stream of payments for life or a fixed period not to exceed the life expectancy of the beneficiary. If the owner had reached his or her required beginning date, the beneficiary may be able to use the remaining life expectancy of the owner if it is longer than their own. Generally, distributions must start by December 31 of the year following the owner's death. (An exception may apply for a surviving-spouse beneficiary).

All guarantees, including optional benefits, are based on the claims-paying ability of the issuing insurance company.

TREAT AS OWN IRA OR ROLL OVER TO OWN IRA

This option is only available for spouses.

STRETCH

The beneficiary can spread systematic required minimum distributions (RMDs) over a period that does not exceed his or her life expectancy. In the case where the owner died after his or her required beginning date, the beneficiary may be able to use the remaining life expectancy of the owner if it is longer than their own.

THE "STRETCH" BENEFICIARY DISTRIBUTION OPTION

Three valuable features:

1. They're only required to withdrawal a minimum amount each year, giving them greater tax liability control of the inherited IRA to the extent permitted by law.
2. The assets that remain in the inherited IRA maintain tax-deferred status and the potential to appreciate in value.
3. The beneficiary keeps all other options available, including taking a lump-sum withdrawal at any time.

The stretch death benefit distribution calculation is based on the life expectancy of the beneficiary (or in some cases the owner) as listed in IRS Table I: Single Life Table (for use by beneficiaries), which can be found in *IRS Publication 590*. The calculation is based on the beneficiary's age in the year following death, or in some instances the owner's age in the year of death, reduced by one each year moving forward. The following is an example of how a stretch distribution is calculated based on the life expectancy of a 54-year-old beneficiary.

Inherited IRA $100,000 ÷ 30.5 = $3,279

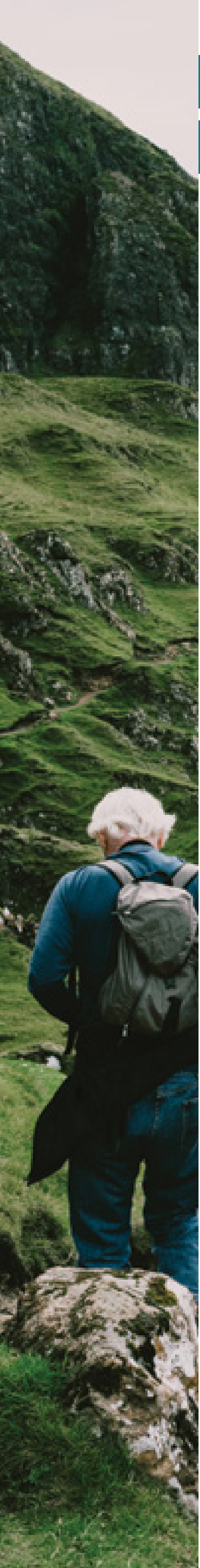
Initial divisor for 54-year-old beneficiary, reduced by one each year (e.g., 30.5, 29.5, 28.5, etc.). This calculation method only applies to non-spouse beneficiaries.

This is a hypothetical illustration and is for illustrative purposes only.

[1]Not all employer-sponsored retirement plans or IRA custodians offer all of these options. If one or more is important to your wealth transfer objectives, or if you seek control, confirm that your current plan or custodian will accommodate your intentions.

[2]Note: The availability of some of these options may depend upon when the IRA owner died and whether the beneficiary qualifies as a designated beneficiary.

Withdrawals of taxable amounts are subject to ordinary income tax.



IT'S YOUR LEGACY.
PASS IT ON THE WAY YOU SEE FIT.

Some IRA trustees and custodians offer a restricted beneficiary designation option allowing the IRA owner to restrict the beneficiaries to specific distribution options. This can be useful if you're concerned about how one or more of your beneficiaries will use their inheritance.

WHAT YOU SHOULD DO TODAY

Here are three simple things you should consider to ensure your IRA assets pass to your beneficiaries the way you intend.

1. Review your beneficiary designations to ensure they are accurate and up to date.
2. Educate your beneficiaries on the options they have and the tax implications associated with each option.
3. Speak to your financial professional about restricted beneficiary options if you're concerned about how one or more of your beneficiaries will manage the assets they inherit.

SETTING POSITIVE BOUNDARIES:

Restricting the Beneficiary

To show how establishing distribution limits can be good for both you and your beneficiary, let's take one family's example:

Mr. Jones would like to leave his IRA to his son and his daughter. While he expects his daughter to handle it well, Mr. Jones worries about his son's ability to manage money.

Therefore, he wants to restrict his son's access to his portion of the IRA assets. Mr. Jones can do so by using a restricted beneficiary designation.

Mr. Jones

Mr. Jones' daughter

NO RESTRICTION

Mr. Jones places no restrictions on his daughter's inherited IRA assets. She can choose whatever death benefit distribution option that she feels is best for her situation.

Mr. Jones' son

RESTRICTED TO STRETCH

Mr. Jones restricts his son's access to his inherited IRA assets to the stretch option until his son reaches age 50. This allows his son to withdraw the minimum amount required by law but restricts his access to the full amount until he is older.

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