What Happens to Your IRA When You Are No Longer Around?

BY THOMAS R. KAPLAN

IRA accounts have become a very important tool for accumulating and holding assets for retirement. Many individuals have accumulated large amounts of money in their qualified pension or profit sharing plans. When they terminate their employment, these funds are commonly rolled into a traditional IRA account to provide for greater flexibility in their retirement years. For many retirees, this IRA account will be their largest single asset.

After successfully accumulating these funds, an individual needs to give some attention to the rules that apply to the distribution phase of the retirement accounts. Without proper planning, a traditional IRA can be one of the worst assets to own at the time of death. Estate and income taxes cold eat up 60-70 percent of an IRA account!

What are the rules for distributing traditional IRA funds at the account owner's death? Different rules apply, depending on whether death occurs before or after the required beginning date-the date after which you have to begin taking annual distributions. This required beginning date for a traditional IRA is generally April 1 of the year following the year in which the IRA owner turns age 70 1/2?

If an IRA owner dies before the required beginning date, distributions must be made under one of two methods:

•The Five-Year Rule. The entire value of the account must be distributed within five years after the death of the IRA owner.

•The Life Expectancy Rule. Any values payable to a designated beneficiary must be distributed over the life (or life expectancy) of the beneficiary, beginning within one year of the owner's death.

If an IRA owner dies on or after the required beginning date, the remaining account balance must be distribute over the longer of: 1) the single-life expectancy of the designated beneficiary; or 2) the remaining single-life expectancy of the owner, based on his or her age at death.

In either case, a designated beneficiary may choose to receive a faster distribution of the entire account. Also, a surviving spouse who is the designated beneficiary of the IRA may elect to treat the IRA as his or her own.

A deceased's IRA account may be subject to both estate and income taxes at death. The value of the IRA account will be included in the deceased's estate for estate tax purposes. The amount of any estate tax due on the IRA will depend on the value of the deceased's total estate. In addition to the possible estate tax, distributions to the beneficiary will be considered income in respect of a decedent. The term income in respect of decedent refers to those amounts to which the deceased was entitled as gross income, but which were not included in his taxable income for the year of his death. The beneficiary will pay income tax on distributions received in the same manner as the decedent would have.

WITHOUT PROPER PLANNING, A TRADITIONAL IRA CAN BE ONE OF THE WORST ASSETS TO OWN AT THE TIME OF DEATH.

In view of the combination of estate and income taxes, proper planning by IRA owners during their lifetime can minimize taxes at the time of death and maximize amounts passed on to their heirs. Coordinating your tax and financial strategies with your life insurance program will allow you to get the greatest benefit from your planning.

There are also tremendous opportunities to "stretch" your IRA for the benefit of your children and grandchildren. We recommend you meet with your financial professional to review your IRA plans. It is a precious asset that requires proper care! stb

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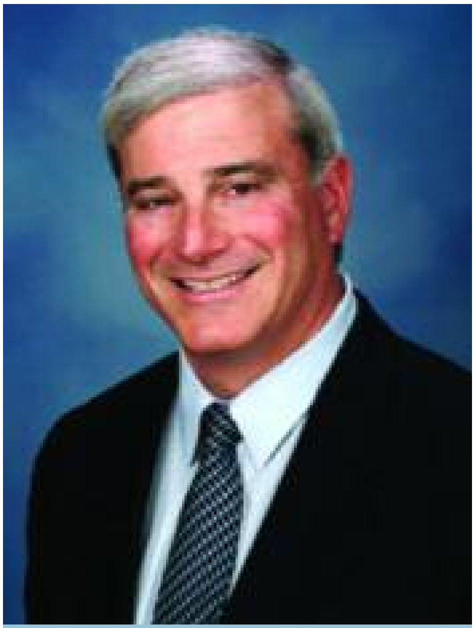

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