



AMERICAN FINANCIAL ADVISORS, LLC

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The IRA Time Bomb

At American Financial Advisors, LLC, we continually strive to stay on top of issues that may affect your financial life – so you are better able to live your life – and leave the worrying to us in many cases.

In that vein, David Chapman, CFP® recently attended an intensive two-day IRA distribution training session with Ed Slott. Mr. Slott is a nationally acclaimed IRA distribution expert and author of *The Retirement Savings Time Bomb... And How to Defuse It*, *Parlay Your IRA Into A Family Fortune*, and *Your Complete Retirement Planning Road Map: The Leave-Nothing-to-Chance, Worry-Free, All-Systems-Go Guide*. Ed Slott has been cited as “The best source for IRA advice” by *The Wall Street Journal* and instructs IRA owners to make sure they have a competent financial advisor who stays up to date on the latest IRA tax laws.

IRA assets reached a record high of \$3.67 **trillion** in 2005 in the United States. This exceeds the assets in either private-sector Defined Benefit plans (\$2.15 trillion) or Defined Contribution plans (\$2.97 trillion). This fact alone makes the decisions you make about your IRA distributions some of the most important ones you will make for your future. Following are questions relating to IRA’s and some relevant tips and advice you may want to consider.

Who should I name as my beneficiary? Who is designated as my beneficiary?

The answer to these questions will determine whether or not your heirs will be able to utilize one of the biggest (if not the biggest) benefits in the tax code. If you are not sure of whom you named as your beneficiary or things have changed in your life and you would like to review that decision please see the enclosed profile or call our office and schedule an appointment to discuss your options.

Can't I just name my estate as the beneficiary and let my assets pass through my Will?

This could be a very costly mistake. If the estate is your beneficiary you will lose the benefit of “stretching” your IRA over the lifetime of your children and/or their children.

Naming beneficiaries and reviewing that thought process as situations in your life change can have a very meaningful impact on you and your loved ones. Take the time to know your options and make the best choice for you and your family.

When are Required Minimum Distributions (RMD) required?

The IRS knows who is supposed to receive Required Minimum Distributions every year.

If you have no designated beneficiary, the maximum IRA payout period is limited to 15.3 years.

Most clients must start taking their RMD by April 1st of the year after they turn 70 ½. If you wait until that deadline, you will be required to take another distribution by the end of that same year. You also must determine what balances you should use in calculating the RMD. If you do not take the required distribution, the penalty is 50% of the amount you should have withdrawn.

Following are some other tips and things to think about relating to IRAs:

Who takes the “year of death” distribution? Does a year of death distribution have to be taken?

IRAs don't pass through your Will – unless you name the estate as your beneficiary. This is generally not the best option.

There are two different 5-year rules for Roth IRAs – one for tax-free distributions and one for penalty-free distributions.

Medicaid treatment of retirement accounts: Roth IRAs are always an available resource because Roth IRA owners have no RMD.

A non-spouse beneficiary cannot do a rollover. The sixty day rollover rule does not apply to non-spouses.

IRAs with multiple beneficiaries can be split anytime (before or after the IRA owner's death), but if split after 12/31 of the year after death, they will all be stuck with using the age of the oldest beneficiary during the stretch payout period.

The 10% penalty exception for education and first time homebuyers applies only to distributions from IRAs – not company plans.

The age 55 exemption from 10% penalty applies only to company plans – not IRAs.

From age 59 ½ to 70 ½, there are no rules and no penalties.

There is no deadline for a spousal rollover – it can be done at any time.

The 20% withholding tax rule does not apply to IRA's, it only applies to eligible rollover distributions from company plans.

These are but a few of the issues surrounding IRA distributions. If you have any questions or concerns about your present IRA situation or you would like to review your options – please feel free to call our office and schedule an appointment or phone consultation.