PLANNING FOR RETIREMENT/DEFERRED COMPENSATION

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TAX DEDUCTIBLE IRA VS. AFTER-TAX SAVINGS FOR RETIREMENT

PERTINENT INFORMATION

- Mr. Kugler, age 25, would like to invest $5,000 of his gross income each year to save for retirement.
- Mr. K is not a participant in a qualified retirement program. Therefore, he is eligible to make a tax-deductible contribution of $6,000 to an individual retirement account (IRA), but elects to contribute only $5,000.
- As an alternative, he is considering using the after-tax equivalent of $5,000 to invest in a high yield stock investment that will generate a 7% annual dividend.
- Mr. K is in a 40% income tax bracket (combined federal and state) and expects to remain in a high bracket after retirement.

GOALS AND OBJECTIVES

- Mr. Kugler is not sure that the upfront tax savings of contributing to a deductible IRA is a particularly valuable feature since the subsequent retirement benefits are fully taxable.
- Under the tax-deductible IRA plan, no income taxes will be paid on the contributions or the earnings until distributions begin at retirement.
- Mr. K wants to know if he would obtain better long term results by foregoing the tax deductible IRA plan and simply investing the after-tax amount directly in a certificate of deposit.
- He would like to see an after-tax comparison of each program assuming 7% yield, and retirement distributions beginning at age 70 based on a 17-year payout (life expectancy for an individual age 70 is 17 years).

PROPOSED ARRANGEMENT

- The $5,000 annual contribution to the IRA will grow to $1,528,759 at age 70.
  - Assuming the $1,528,759 will continue to earn 7%, it will provide an annual before tax benefit of $156,583 per year beginning at age 70 for the 17-year life expectancy (IRS Reg. 1.72-9 Table V).
  - The annual after-tax (40%) distribution would be $93,950.
- If Mr. K chooses not to contribute to the IRA, he will only have $3,000 of the $5,000 gross income after tax (40% tax bracket) to invest in the stock investment.
  - The 7% dividend would also be taxed each year; therefore, it would only generate an after tax yield of 4.2%. The $3,000 annual contribution would grow to approximately $399,581 at age 70.
  - Assuming the fund now earns 7% before tax, the $399,581 will provide an annual income of $40,927 per year for the 17 years.
  - Since the contributions were made with after-tax dollars and the dividends are being taxed each year, the entire accumulation has been taxed; therefore, the annual after-tax income will be the entire $40,927.

TAX DEDUCTIBLE IRA		NON-DEDUCTIBLE SAVINGS ARRANGEMENT
$5,000	Before Tax Amount	$5,000
0	Income Tax 40%	2,000
$5,000	After Tax Contribution	$3,000

Tax Deductible IRA:

Mr. K
Age 25

$5,000 per Year

IRA
(Invested at 7%)
tax deferred

Distribution
Age 70

Benefits Fully Taxable on Distribution

Non-Deductible Savings Arrangement:

Mr. K
Age 25

$3,000 per Year

Savings Account
(Dividend at 7%
with after tax
return of 4.2%)

Distribution
Age 70

Benefits Non-Taxable (Taxes Have Been Paid Annually)

Tax Deductible IRA	**LUMP SUM DISTRIBUTION At Age 70**	Non-Deductible Savings Arrangement
$1,528,759		$399,581
0	Cost Basis	399,581
1,528,759	Taxable Gain	0
(611,504)	Income Tax (40%)	(0)
$917,255	After-Tax Distribution	$399,581

OR

Tax Deductible IRA		Non-Deductible Savings Arrangement
$156,583	Assume 17-Year Annual Payout	$40,927
156,583	Taxable Income	0
(62,633)	Income Tax (40%)	(0)
$93,950	After-Tax Income	$40,927

RESULTS AND BENEFITS

- Under either the lump sum or estimated life expectancy options, the tax deductible IRA arrangement produces substantially greater after-tax benefits. This is primarily due to the fact that:
  - The tax deductible IRA allows a greater amount to be invested for retirement (the full $5,000 vs. $5,000 less 40%, or $3,000).
  - The tax deductible IRA has the entire 7% earnings growing in the plan on a tax deferred basis.
  - The 7% dividend in the non-deductible plan is subject to current taxes each year. As a result, only 4.7% accumulates in the plan each year.
- Even with the new reduced dividend tax rate, the benefit of the IRA versus the non-deductible savings arrangement is substantial.
- Note: Using the actual single life expectancy payout will cause the entire lump sum amount to be exhausted in 17 years. If desired, Mr. K could take annual withdrawals under the Uniform Distribution Table. This would reduce the annual withdrawal amount and provide lifetime income beyond life expectancy.

REVIEW OF IMPORTANT CONCEPTS

QUALIFIED PLAN

The term "qualified plan" refers to either a defined contribution or defined benefit retirement program sponsored by an employer that qualifies for favorable income tax treatment under the tax laws of the United States. It does not include Individual Retirement Accounts.

INCOME TAX ASPECTS

Contributions to a qualified plan are normally income tax deductible provided the plan meets various IRS qualification requirements. The earnings on the plan assets will accumulate tax deferred. Plan distributions (in excess of any employee contributions) will be subject to income tax only when actually received by the plan participant.

EMPLOYER-SPONSORED QUALIFIED PLANS

There are many different types of employer-sponsored plans, the most common of which are outlined below.

TRADITIONAL PLANS

Defined Benefit Plans. In this type of plan the employer agrees to pay a specified benefit, usually on a monthly basis, to the plan participant during his or her retirement. Contributions are calculated based upon the actuarial assumptions necessary to produce the guaranteed retirement benefit. The plan is obligated to pay the benefit to the participant regardless of the investment performance or the value of the plan assets. This type of plan usually benefits older employees because of the amount of time needed to accumulate the funds to provide the specific benefit. With an older employee, the funding must be completed over a shorter period of time. Thus larger contributions will be required than for a younger employee receiving the same defined benefit. The trustees invest the defined benefit assets to provide the guaranteed benefits. Participants may not individually direct these investments because there are no individual accounts, only a projected retirement benefit. The maximum annual benefit for an employee at then normal retirement date is $225,000 payable as a single life annuity.

Defined Contribution Plans. Defined contribution plans allow employers (and sometimes employees) to make fixed or flexible contributions to individual accounts for the benefit of the plan participants. The employer guarantees to pay to the participant upon his or her termination of employment the vested portion of his or her account balance accumulated from the contributions and earnings thereon. Only the amount of the contribution is defined in this type of plan; there is no guaranteed benefit. Most newly established employer sponsored retirement plans are defined contribution plans. Only defined contribution plans may (although are not required to) allow participants to individually direct the investments of their accounts. Profit sharing plans, 401(k) plans, new comparability plans, age weighted plans and money purchase plans are all examples of defined contribution plans. For 2019, there is a $56,000 limit on combined employer and employee contributions ($62,000 if eligible for a catch-up contribution for those who are 50 and older).

Profit Sharing Plans or discretionary defined contribution programs are employer-sponsored plans where contributions are generally discretionary and may vary from one year to the next (unlike the money purchase defined contribution plan discussed below). The amount of the employer contributions are no longer required to be made from profits. The amount of the contribution is usually a percentage of the covered compensation of all eligible employees. The company's deduction for a plan year is generally limited to 25% of the total annual compensation of all eligible employees.

401(k). Another form of defined contribution plan is the 401(k) plan. This is the most frequently adopted new employer sponsored qualified plan. The plan gets its name from Internal Revenue Code Section 401(k), under which it was created. This Code Section sets forth the requirements to establish and maintain this type of plan. The best way to understand a 401(k) plan is to think of it as a traditional profit sharing plan, except that an employee may elect to reduce his or her salary and contribute this amount to the qualified plan. In addition to these employee salary deferrals, the employer may elect to contribute a discretionary contribution and/or may "match" all or a portion of the employee's contribution. The 401(k) plan investments may be partially or wholly self-directed. The individual participant is generally allowed to select from a variety of investment options chosen by the plan trustees where he may invest his contribution to the plan.

The IRS limit for pre-tax employee contributions for the year 2019 is the lesser of 100% of the employee's covered compensation or $19,000. "Highly Compensated Employees" are sometimes limited to contributing less than $19,000, depending on how much non-highly compensated employees contribute and/or how much money the company contributes to the plan. The law defines a "highly compensated employee" as anyone who owned more than 5% of the Company during the current or preceding year, or had compensation from the employer in excess of $125,000. If a significant number of employees earn over $125,000, the employer may elect to define highly compensated employees as those who were in the top 20% in terms of compensation.

401(k) plans can permit participants to elect to make their 401(k) contributions as Roth 401(k) after-tax contributions. The discrimination tests are similar to existing tests for employee contributions. The annual contribution limits apply to a combination of pre- and post-tax 401(k) programs.

Age-Weighted Profit Sharing is another type of a defined contribution plan. However, unlike the traditional profit sharing program where contributions are generally allocated to employees in proportion to their annual compensation, age is now the determining factor in how the contributions are allocated. Thus the allocation of the annual contribution is weighted in favor of older participants.

New Comparability. This is another variation of a profit sharing plan. It is also commonly referred to as a **cross-tested plan**. An actuarial calculation is undertaken annually to determine the imputed average benefit of eligible employees. The employer's annual contribution is converted into an equivalent life annuity benefit, payable at normal retirement age by using actuarial projections. If certain non-discrimination tests can be met, a greater contribution can be made on behalf of a select group of employees (generally, highly compensated employees or shareholders).

The overall employer tax deduction limit including employer and employee contributions to a Profit Sharing, 401(k), Age Weighted Profit Sharing, or New Comparability plan is generally 25% of covered payroll plus employee elective deferrals.

Stock Bonus Plans or Employee Stock Ownership Plans (ESOP's) are another variation of a defined contribution plan. They generally resemble a traditional profit sharing plan, but rather than contributing cash, the employer either contributes employer stock or cash that must be primarily invested in qualifying employer securities. This is a popular choice among startup companies, where available cash may be severely limited.

Money Purchase Plan. This is another type of defined contribution plan. Unlike the other defined contribution plans, the sponsoring employer is obligated to make a mandatory annual contribution on behalf of plan participants. The amount of the annual contribution must be stated in the plan document, and is often a fixed percentage of the participant's compensation. The contribution is required even if the employer is not profitable. The contribution is often allocated to individual employees based on the ratio of their compensation to the total compensation of all employees. The maximum employer contribution to this program is 25% of covered compensation.

Target Benefit Plans is the last example of a defined contribution plan. The employer establishes a hypothetical projected retirement benefit for each employee. An annual contribution is then made based on this hypothetical target benefit to be payable at retirement. Unlike the defined benefit plan, where the benefit is guaranteed, in this type of plan the benefit amount is used only for the purpose of determining the amount of the contribution.

Cash Balance Plans are defined benefit plans that define the benefit in terms that are more like a defined contribution plan. A participant has an account and an annual contribution to that account. Interest is credited to the account in accordance with a rate specified in the document. When an employee terminates employment, a lump sum payment will generally be made from their account balance, which can be rolled over to an IRA or another qualified plan.

OTHER PLAN TYPES

The **SEP**, or Simplified Employee Pension IRA (SEP), is an employer sponsored retirement plan, which is usually provided by small businesses that do not have any other retirement plan. They are subject to the same rules as a traditional IRA with the exception of the contribution limits. The limit is the lesser of 25% of each participant's compensation (subject to the annual compensation limitation of $280,000 or $56,000. Annual employer contributions are totally discretionary, but in any year a contribution is made, the same percentage contribution must be made for all plan participants.

Eligibility may be restricted to employees who have been employed for three of the preceding five years. However, any employee who earns more than $600 is deemed to be eligible for that year.

The **SIMPLE-IRA** (Savings Incentive Match Plans for Employees) is another employer sponsored retirement plan created for small businesses with 100 or fewer employees. It may either be a SIMPLE-IRA or a SIMPLE 401(k) plan. Contributions are made to individual retirement accounts for employees. Both the employer and the employee can make them. The employee's contribution limit in 2019 is $13,000. The employer <u>must</u> match a portion of this amount. The employer must provide either a matching contribution dollar for dollar of up to 3% of an employee's compensation, or, as an alternative, the employer may contribute 2% of compensation for each eligible employee. If a SIMPLE-IRA is used, the company may not maintain any other type of retirement plan.

Section 457 Plans. Employees of state and local governments and employees of tax-exempt organizations may be eligible to participate in nonqualified deferred compensation plans of these tax-exempt entities. The maximum employee deferral in 2019 is $19,000. Even though many of the other pension rules are inapplicable to these plans, there is one major requirement. The minimum distribution rules applicable to qualified plans are likewise applicable to these programs.

403(b). A 403(b) program is a special type of plan for employees of public schools and a certain type of non-profit organization, which is similar to the 401(k). Under this plan the employee may reduce his salary and contribute this amount to his or her retirement account. In addition, the non-profit organization may elect to make additional contributions to the plan. The maximum annual contribution is $19,000 in 2019 (plus a maximum $6,000 catch up contribution if age 50 or older at the end of the calendar year).

The maximum limit for annual additions (employer contributions, employee contributions and forfeitures) for all defined contribution plans is the lesser of \$56,000 or 100% of compensation for all qualified plans, 403(b) programs and 457 arrangements. For example, in 2019 and thereafter the annual limit for those participants who earn less than \$56,000 per year is 100% of their compensation, and for those participants who earn more than \$56,000, it is \$56,000. 403(b) plans permit participants to elect to make their 403(b) contributions as Roth 403(b) contributions.

Keogh Plan. At one time, a Keogh plan was a special type of qualified plan designed for the self-employed. Under current tax law, there are no significant differences between corporate plans and plans that cover the self-employed. However, the name “Keogh plan” is still often used as a generic term to describe any qualified plan for an unincorporated entity.

INDIVIDUAL RETIREMENT ACCOUNTS

A Traditional IRA is a personally owned retirement plan. The contribution limit in 2019 is \$6,000 per year (\$12,000 for participant and spouse). The contribution will be fully tax deductible if neither the individual nor his or her spouse is covered by a company-sponsored qualified retirement plan. If participating in a qualified plan, contributions can still be deductible if Modified adjusted gross income (MAGI) is below certain levels.

MAGI is generally defined as your adjusted gross income (AGI) from IRS Form 1040 or 1040A. Certain items must be added to AGI to arrive at MAGI. Some of those items included the traditional IRA deduction, and certain foreign earned income items. Any income produced by converting a traditional IRA to a Roth IRA is not to be included as part of MAGI.

In this type of plan, the individual owner decides on investment options. The assets grow tax deferred. Traditional IRA contributions cannot be made after the attainment of age 70½.

There is a credit for lower and middle-income taxpayers to save for retirement. In addition to any existing deductions or exclusions, taxpayers who are over 18, not a dependent or a full time student, will receive a nonrefundable matching tax credit for elective deferrals or IRA contributions up to \$2,000, or \$4,000 if married and filing jointly.

ROTH IRA

A Roth IRA allows an individual to contribute up to \$6,000 per year in after-tax dollars. The Roth IRA assets grow tax-free (versus tax deferred in a traditional IRA). Withdrawals may also be tax-free. To qualify for tax-free treatment, a withdrawal of the earnings generally cannot be made until the account has been in existence for at least five years and the taxpayer is over age 59½. The account holder can always withdraw the amounts contributed (not the earnings) without tax or penalties. There are exceptions to the pre-age 59½ requirement such as distributions due to death or disability. In addition, participants may withdraw up to \$10,000 to buy their first house, as long as they have held the account for five years. Unlike traditional IRA contributions, contributions to a Roth IRA can be made at any age if the taxpayer has earned income. Also, with a Roth IRA there are no required minimum distributions when the taxpayer reaches age 70½.

Individuals who wish to contribute to both a traditional and a Roth IRA may do so, as long as the combined contributions do not exceed the lesser of $6,00 or 100% of compensation. Contributions to SEPs and SIMPLE plans do not reduce Roth IRA contributions (IRC Section 408A(f)(2)). In order to participate in either type of IRA, you must have earned income. Investment income doesn't count nor does income from pensions and annuities. The only exception to the general rule is that if you are employed and your spouse is not, you can contribute up to $6,000 to a traditional IRA or Roth IRA for your spouse. Excess contributions to an IRA or Roth IRA are imposed with a 6% penalty tax every year until the money is removed from the account.

ROTH PLAN ACCOUNT

A participant in a Qualified Plan has the ability to convert their pre-tax (401(k)), 403(b), 457 or profit sharing account balance into a Roth account if the plan so permits. The account is deemed to be included in taxable income in the year of the conversion with no opportunity to reconvert back to a traditional pretax account balance in the qualified plan.

"CATCH UP" CONTRIBUTIONS

For each year thereafter all taxpayers who attain the age of 50 or older will be permitted to make a "catch up" contribution to their qualified retirement plan; 403(b) or 457 program or to a SIMPLE plan. The maximum catch up contributions are:

IRAs & Roth IRAs	Qualified Plans / 401(k) or 457 plans	SIMPLE Plan
$500	$6,000	$3,000

These catch up contributions do not count against the maximum employer or employee contributions into a qualified plan as long as they are available on a uniform and nondiscriminatory basis to all employees

OTHER IMPORTANT CONCEPTS

ANNUITIES

There are numerous types of annuities. One is a single life annuity in which the individual receives a fixed level of payments at regular intervals for life, with payments ending at his or her death. There is also a joint and survivor annuity, where the primary annuitant receives a fixed level of payments at regular intervals for life, and then a second annuitant, if surviving, receives a fixed amount at intervals for his life. The amount that the second annuitant receives can equal the benefit of the first annuitant or it can be a different amount (hypothetically 50%) than the first annuitant received.

An annuity can be structured for payments only for a finite number of years. A fixed period annuity is an annuity paid at regular intervals for a fixed period of time. Payments may be fixed or be a specific portion of an account balance.

A term certain annuity will provide the annuitant with a lifetime annuity and guarantee a minimum number of years that the fixed amount will be payable (hypothetically, 10 or 20 years).

A variable annuity will pay to an individual an amount that varies for a fixed period of time but generally over life. The payment amount is generally dependent upon the rate of return on the invested annuity assets.

ANNUITY EXCLUSION RATIO

The portion of an annuity attributable to after-tax contributions to a qualified plan is excluded from income. The excludable amount of each monthly payment is determined by dividing the employee's basis in the contract by the number of payments contained in the following table:

Age	Number of payments
55 or less	360
60 or less but over 55	310
65 or less but over 60	260
70 or less but over 65	210
Over 70	160

For non-qualified annuities, the exclusion ratio is based upon dividing investment in the contract by the expected return based on the number of payments specified, or using IRS tables for life expectancy factors for single life annuities, joint survivor annuities. The ratio is also impacted if there is a refund provision in the annuity contract. Total amount that an individual may exclude cannot exceed his basis.

Example: assume a plan participant has made employee after-tax contributions into a qualified plan. Over the years, his after-tax contributions total $50,000. He is age 70 and the plan benefits are paid out in the form of an annuity. His estimated monthly life annuity payout is $8,333.33. The excludable amount ($312.50) is determined by dividing $50,000 by 160 payments. Therefore, $312.50 of each 160 monthly payment is considered a tax-fee return of contributions. The total amount that an employee may exclude cannot exceed his basis.

QUALIFICATION RULES

Qualified retirement plans are subject to a number of qualification tests. An employer's plan may lose tax-qualified status if these tests are not met. Many of the qualification requirements concern satisfying various coverage and discrimination rules. There are specific delineated requirements that must be met, including when employees are eligible to participate in a plan (eligibility), when employees are entitled to a non-forfeitable interest in those assets (vesting) and how annual contributions or benefit limitations are contributed or allocated (accrual rules).

SOCIAL SECURITY INTEGRATION

Employers are required to match their employees' contributions to Social Security up to an annually determined dollar amount. Therefore, the sponsoring employer is permitted to factor its Social Security contribution or a participant's projected Social Security benefit into its qualified retirement plan.

In a defined contribution plan, this may be accomplished by allocating a greater percentage of the annual contribution to those participants earning in excess of the maximum compensation limit for Social Security purposes. In a defined benefit plan, the sponsor may structure the benefit formula to provide a retirement benefit that recognizes a higher percentage of retirement benefits for employees whose compensation is in excess of the maximum provided by Social Security. Thus, Social Security provides the base retirement plan, and the qualified plan provides a benefit that integrates with or supplements Social Security. In effect, integrating Social Security into the qualified retirement plan will allow the employer to provide a greater benefit to higher compensated employees.

A great deal of information about Social Security benefits can be obtained from the Social Security Administration's website at www.ssa.gov.

DISTRIBUTIONS FROM AN IRA

Distributions from an IRA are generally more flexible than distributions from a qualified plan. Distributions from any qualified plan are subject to the plan provisions and may be required to have spousal consent if a distribution format is elected other than a joint and survivor annuity. Distributions from an IRA are generally *not* subject to spousal consent (with the possible exception of IRA's in certain Community Property States). This means that the individual can withdraw funds as desired without requiring the consent of a spouse.

INCOME IN RESPECT OF A DECEDENT

Income in Respect of a Decedent (IRD) is any income that the decedent earned but did not receive prior to death (IRC Section 691). One primary IRD item is usually the qualified retirement accumulations or Individual Retirement Account. The present value of all IRD items will be included in the decedent's estate for estate tax purposes. There is no step-up in cost basis for IRD items. However, the IRD beneficiary is allowed an income tax deduction for any federal estate tax attributable to and paid on IRD.

MANDATORY WITHHOLDING

Distributions paid to a plan participant or a surviving spouse in a lump sum from a qualified retirement plan may be subject to a 20% mandatory withholding of federal income tax (IRC Section 3405(c)). This usually occurs when the trustee of the qualified plan writes a check directly to the plan participant. This does not apply to distributions from a qualified plan that are directly "rolled over" to an IRA or directly transferred into another qualified plan. If the participant receives the distribution, he or she still has 60 days after receipt of the qualified funds to "re-roll" a portion or the full amount of the distribution into an IRA. However, the 20% mandatory withholding has already occurred and paid over to the IRS. To avoid the immediate taxation on the 20% withheld, the participant must use personal assets to fund the rollover IRA. The withholding is not an additional tax. The withheld funds generally cannot be accessed until the taxpayer files his or her tax return the following year.

MINIMUM DISTRIBUTIONS

Many individuals would like to minimize annual retirement distributions so they can continue to take advantage of the tax deferred accumulation of assets inside a qualified plan or IRA.

Generally, when the plan participant (other than Roth IRA) reaches his/her required beginning date (RBD), typically age 70½, the individual must commence taking Required Minimum Distributions (RMDs) from the plan. The distributions are a specified percentage of the assets in the account. The percentage increases each year.

At death, a new RBD and new RMD would be applicable to the designated beneficiary.

The RMD Rules will automatically be satisfied if the normal form of annuity is either a life annuity or a joint and survivor annuity where the spouse is the second life.

All individuals who have qualified retirement assets can use this Uniform Distribution Table during their lifetime to determine their annual lifetime required minimum distributions, and with certain exceptions, regardless of who their beneficiary is.

Age of Employee	Distribution Period	Percentage Required to be Withdrawn Annually
70	27.4	3.65%
71	26.5	3.77%
72	25.6	3.91%
73	24.7	4.05%
74	23.8	4.20%
75	22.9	4.37%
76	22.0	4.55%
77	21.2	4.72%
78	20.3	4.93%
79	19.5	5.13%
80	18.7	5.35%
81	17.9	5.59%
82	17.1	5.85%
83	16.3	6.13%
84	15.5	6.45%
85	14.8	6.76%
86	14.1	7.09%
87	13.4	7.46%
88	12.7	7.87%
89	12.0	8.33%
90	11.4	8.77%
91	10.8	9.26%
92	10.2	9.80%
93	9.6	10.42%
94	9.1	10.99%
95	8.6	11.63%
96	8.1	12.35%
97	7.6	13.16%
98	7.1	14.08%
99	6.7	14.93%
100	6.3	15.87%

The distribution period is divided into 100 to arrive at the applicable percentage for annual withdrawals. The applicable percentage multiplied by the account balance (revalued annually) as of the end of the prior year (e.g. Dec. 31st of the prior year for an IRA), produces the lifetime Required Minimum distribution. The distribution period is redetermined every year as the individual gets older. As a result, if minimum distributions are taken every year, the individual will never exhaust the account during lifetime.

The only exception to the use of this table is if the employee's sole beneficiary as of Jan. 1st of the year is the employee's spouse who is more than ten years younger than the employee and the spouse is the sole beneficiary of those retirement assets as of the first day of the year for the entire year. If the beneficiary has changed during the year from the spouse to anyone else for reasons other than divorce or death, then the single life table must be utilized. If the spouse remains the designated beneficiary, then the employee would be allowed to use the longer distribution period measured by the recalculated joint life and last survivor life expectancy of the employee and spouse, utilizing the tables in the regulations.

RETIREMENT DISTRIBUTIONS FOR MARRIED AND UNMARRIED PARTICIPANTS

Certain plans that are subject to minimum funding requirements, such as defined benefit plans, must generally have their benefit paid in the form a life annuity, or if they are married, a qualified joint and survivor annuity. However, an alternate form of distribution is permitted if there is a valid and informed written execution by the spouse of a waiver of the joint and survivor annuity requirements.

ANNUITY DISTRIBUTIONS FROM QUALIFIED PLANS

Many defined benefit plans do not permit lump sum distributions at termination of employment or at early or normal retirement age. Instead, monthly retirement benefits are distributed to the retired plan participant. Periodic distributions from these plans are taxed under the general annuity rules of Internal Revenue Code Section 72. If there were employee contributions, a calculation is required to determine the amount subject to income tax (exclusion ratio). The 401(a)(9) regulations provide that the distribution period for annuity payments will be determined using the life of the beneficiary calculated as of the annuity starting date, regardless of whether that date is after the account owner's required beginning date.

NON-QUALIFIED PLANS

Non-qualified plans are employee benefit plans that do not qualify for favorable tax treatment and are generally established only for a select group of management or highly compensated employees. They are *not* subject to the nondiscrimination rules of qualified plans. There are generally no employer deductions for contributions to these plans until the employee includes a corresponding amount in taxable income. A non-qualified plan will have significantly fewer restrictions than a qualified plan. Non-qualified plans are unsecured obligations of the employer and thus subject to additional risk. A plan participant is considered a general creditor of the employer. These plans normally must remain unfunded or contain a substantial risk of forfeitures to avoid current taxation to the employee. An example of a non-qualified plan includes deferred Supplemental Executive Retirement Plans (SERPs) and Corporate Owned Life Insurance (COLI).

PENALTY FOR PREMATURE DISTRIBUTIONS

If an individual withdraws money from either a qualified retirement plan or an IRA, any amounts withdrawn and not rolled over are generally subject to income tax. There is an additional 10% penalty tax for distributions prior to age 59½. The 10% penalty is not applicable in cases involving the death or disability of a participant. There are additional exceptions to this 10% penalty tax, which include periodic distributions from an IRA to the participant at any age which payments continue until the later of the date the participant attains age 59½ or five years. Also exempted from the penalty are distributions to satisfy a Qualified Domestic Relations Order ("QDRO") and distributions to assist in the purchase of a first residence.

DESIGNATED BENEFICIARY

The designated beneficiary is the person selected by the plan participant to receive benefits after the death of the plan participant. The term "designated beneficiary" means an individual is the beneficiary. Someone with a life expectancy that can be measured by his/her age. In certain situations, a trust may qualify as a designated beneficiary if only individuals are beneficiaries of the trust.

The life expectancy of the designated beneficiary will be used as the measuring life for the calculation of RMDs for the designated beneficiary as well as all subsequent beneficiaries of the IRA or QRP. Therefore, the age of the designated beneficiary is the key factor in determining the duration of the payout.

The only exemption is in situations where the death of the IRA owner or plan participant occurs after the RBD and the designated beneficiary is a non-spouse that is older than the deceased. In that situation the younger age of the deceased IRA owner may be used to determine life expectancy rather than the older age of designated beneficiary.

REQUIRED BEGINNING DATE

In general, distributions must commence by the required beginning date (April 1) of the year following the year of attainment of age 70½. In the case of a qualified plan where the employee owns 5% or less of the business, the employee may elect to delay taking his distribution until his actual retirement.

Failure to comply with the required minimum distribution rules results in an excise tax of 50% of the minimum distribution not taken for that year.

ROLLOVER

When an employee leaves a company, if the plan permits and if the required spousal waivers are obtained, a lump sum distribution can be made of the vested portion of a participant's account balance (defined contribution plan) or accrued benefit (defined benefit plan). The participant can directly transfer the distribution into an IRA or another qualified plan. As an alternative, subject to the possible 20% withholding requirements, the owner can take physical possession of the assets. The participant then has 60 days from the receipt of the assets to "roll over" all or a portion of the distributed assets into an IRA or other qualified plan. There is only one rollover permitted for an individual in any calendar year. If more than 60 days elapse, the amount rolled over would be considered a taxable distribution that may also be subject to an additional 10% penalty if the distribution is made prior to age 59½ (unless one of the exceptions apply).

Rollovers are also available regardless of the age of the participant when a qualified plan or IRA distributes assets to a beneficiary on death of the participant. Rollovers have the effect of delaying payment of income tax on the account balance.

In recent years the portability of benefits among all employer sponsored retirement programs was greatly expanded. Regulations permit rollovers of pre-tax IRA distributions to employer sponsored plans and trustee-to-trustee transfers of after-tax contributions. For example, distributions from 403(b) and 457 government plans may now be rolled into an IRA.

TAXATION OF IRA DISTRIBUTIONS

All distributions from a traditional IRA or a rollover IRA are considered ordinary taxable income. Neither favorable tax averaging nor capital gains rates are applicable to any distributions from an IRA. All IRAs are aggregated for purposes of determining the taxable amount of distributions.

Distributions from a traditional IRA where deductible contributions have been made are taxed under the general IRA rules. The amount excluded from income, and thus nontaxable when withdrawn, is equal to:

$$\frac{\text{Total nondeductible IRA contributions}}{\text{Total IRA Account}} \times \text{Distributions}$$

TIMING OF DISTRIBUTIONS

The plan must dictate when and how the account balance or accrued benefit is distributed. Distributions will generally commence either at separation from service, or at early or normal retirement.

If there are distributions of $5,000 or less payable in a lump sum, the plan is not required to obtain the consent of the participant to distribute the benefit. If the benefit is greater than $5,000, approval of the participant and possibly the spouse is required to mandate a distribution prior to normal retirement date. Effective when final Department of Labor regulations are adopted, involuntary cash-outs that exceed $1,000 and are eligible rollover distributions will be required to be rolled over automatically to an employer sponsored IRA, unless the participant elects another method.

VESTING AND FORFEITURES

All or a portion of employer contributions, allocations, or benefits accrued on behalf of a participant in a qualified retirement plan may be forfeited if the employee leaves the company prior to completing a specified period of service. The employer's contribution is not fully owned by the employee until it is 100% vested. Typical vesting schedules provide that an employee becomes partially vested in the employer contributions starting in the second or third year of employment, becoming fully vested at the end of 6 or 7 years. Matching contributions are required to vest under a top-heavy vesting schedule (either a 3 year "cliff" or 6 year graded vesting).

Traditional qualified plans may have forfeitures. When an employee leaves the company in a defined contribution plan, unvested employer contributions can either be reallocated to remaining participants or used to reduce future employer contributions. In a defined benefit plan, forfeitures must be used to reduce future employer contributions. Employee contributions (which include employee 401(k) deferrals) to all qualified plans are always 100% vested and non-forfeitable.

Inter-relationship between distribution rules from qualified plans and estate planning. What are my options as a plan participant?

Distribution Rules

a. Required Begining Date
b. From an IRA – April 1st following the attachment of age 70 ½ but from where?
    i. Each account
    ii. From any account;
    iii. Can satisfy federal withholding requirements as presumed paid equally over year.
c. From a Qualified Plan (defined contribution/defined benefit)
    i. For more than 5% owners;
    ii. For 5% or less owners but as of when?;
    iii. Each account?
d. Need money to live on. Where do you take it and when:
    i. State residency;
    ii. Take from Plan - which one?
    iii. Take from IRA;
    iv. Take from Social Security and delay plan distribution;
    v. Take from IRA and delay social security;
    vi. Take from Roth IRA.
e. Failure to take required minimum distributions (RMD)
    i. Penalties
    ii. IRS Form 5329 – ask for waiver
f. Death after the required beginning date for RMD.
    i. Disclaim
    ii. Divide
    iii. distribute

DIRECT TRANSFER OF IRA FUNDS TO A QUALIFIED PUBLIC CHARITY BY AN IRA OWNER WHO HAS REACHED AGE 70½

PERTINENT INFORMATION

- Mrs. Kugler will reach age 70½ this year.
- She has $1,000,000 in a traditional IRA.
- Her Required Minimum distribution (RMD) for the current year is $36,500.
- She prefers to take as little as possible out of the IRA.
- Mrs. Kugler wants to make a gift of $25,000 to a qualified public charity.

GOALS AND OBJECTIVES

- Mrs. Kugler has been told that she can transfer $25,000 from her IRA account directly to a public charity.
- She would like to know the requirements and income tax treatment applicable to the direct transfer of the IRA funds to a charity.
- She would also like to know the advantages of the IRA charitable gift arrangement.

PROPOSED ARRANGEMENT

- The following are the requirements and favorable income tax treatment applicable to a direct transfer from the IRA account to a qualified public charity.
- Under the Pension Protection Act of 2006, an IRA owner is allowed to make distributions from their traditional IRA and/or Roth IRA to a qualified public charity. This provision has been extended each year through 2015.
- Note: The following is only applicable if Congress extends this option in future years.
    - The contribution must be from the IRA account (not a qualified retirement plan, simple IRA, SEP, or Section 403(b) annuity).
    - The IRA owner must have attained age 70½ when the gift is made.
    - The IRA distribution must be made from the IRA trustee directly to a qualified public charity (described in IRC Section 170(b)(1)(a)). Contributions to a private foundation, charitable remainder trust, donor advised fund, or supporting organization will not be eligible for tax-free IRA distributions.
- The following are the tax aspects applicable to a direct IRA transfer to the charity.
    - The IRA owner may exclude from gross income up to $100,000 of otherwise taxable distributions from the IRA to the charity.
    - The IRA owner is **not** entitled to a charitable deduction for the distributions to the qualified public charity.
    - The RMD for the current year will be reduced by the amount of the IRA distribution to the charity.

RESULTS AND BENEFITS

- Mrs. Kugler does not receive a charitable income tax deduction. However, she does not have to report the $25,000 IRA charitable contribution as income and her RMD is reduced by $25,000.

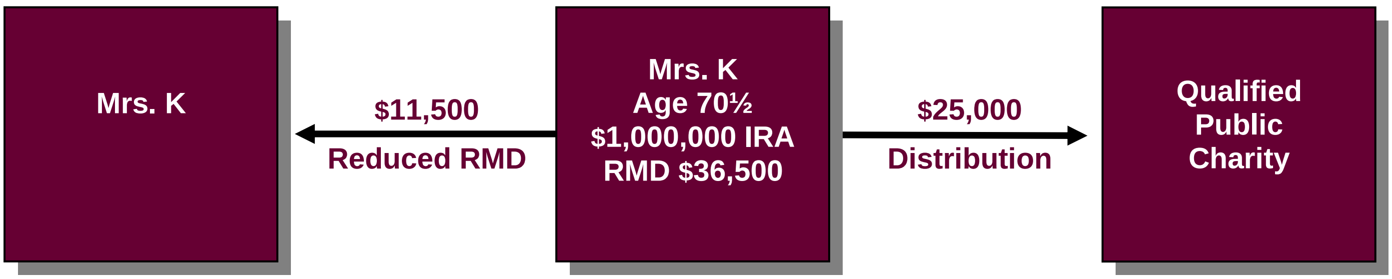
- Since Mrs. Kugler meets the requirements for the direct IRA transfer to charity, she should consider utilizing her IRA to fulfill her charitable gift.

- Mrs. Kugler would not receive a charitable deduction for the $25,000 IRA distribution.

- The $25,000 IRA charitable contribution will reduce Mrs. Kugler's $36,500 RMD for the current year by $25,000 to $11,500.

- The primary advantage of the direct IRA transfer to the qualified public charity is that Mrs. Kugler does not have to report the IRA distribution as income. Not reporting the $25,000 distribution as income is generally better than receiving a charitable deduction, because it does not factor into the 50% limitation on charitable contributions and/or the partial phase-out of the standard deduction for high income taxpayers.

Direct transfer of IRA funds to a qualified public charity by the IRA owner who has attained age 70½



ANALYSIS OF STRETCH OUT IRAs
UNDER DIFFERENT SPOUSAL BENEFICIARY OPTIONS
(DEATH AFTER RBD)

PERTINENT INFORMATION

- There are four Kugler brothers.
- Each has a traditional IRA and expects to accumulate $1,000,000 by age 70.
- At age 70 each brother expects to commence taking Required Minimum Distributions (RMDs).
- They believe their IRA will earn 7% and they will only take the RMDs during their lifetime. The 7% growth rate will consist of 3% income and 4% appreciation.
  - Note: The definition of trust income will vary based on state laws.
- Estate tax on the IRA will be paid from other estate assets or life insurance.

GOALS AND OBJECTIVES

- Each brother would like an illustration showing the payout and accumulations for the IRA under the following assumptions.
  - The payout to each brother (age 70) is for 16-years (Mr. K dies age 85).
  - The surviving spouse is 7 years younger (age 63) and will survive by seven years and also die at age 85.

PROPOSED ARRANGEMENT

- Assume the following designated beneficiaries are applicable:
  - Kugler brother No. 1 – Mrs. K is the outright beneficiary, and she will name their son as designated beneficiary. Their son will be age 50 in the year following Mrs. K's death (34.2 year life expectancy).
  - Kugler brother No. 2 – A Conduit QTIP Trust will be beneficiary. Mrs. K will qualify as sole designated beneficiary. The son is the remainder interest beneficiary.
  - Kugler brother No. 3 – An Accumulation QTIP Trust will be the beneficiary. Mrs. K will be the oldest Trust beneficiary. However, under this arrangement she does not qualify as the sole designated beneficiary. She is considered a non-spousal designated beneficiary. At Mrs. K's death the son is the remainder interest beneficiary.
  - Kugler brother No. 4 – Assume Mrs. K is the outright beneficiary, and she will name their grandson* as the designated beneficiary. The grandson will be age 30 (53.3 year life expectancy) in the year following Mr. K's death.

* Assume the son has predeceased Mrs. K so there would be no generation skipping transfer.

Note: A credit shelter bypass trust, structured with the same payout requirements to the surviving spouse as a QTIP, could produce the same results for retirement distribution purposes. However, the trust principal would not be included in the surviving spouse's subsequent estate.

Note: In each situation the RMD will be greater than the income earned within the IRA.

Kugler Brother 1
Beneficiary: Mrs. K outright

During Mr. K's Lifetime (Uniform Table life expectancy)

Year	Mr. Kugler's Age	IRA Beginning Balance	Uniform Table Life Expectancy	Applicable Percentage	RMD	IRA Ending Balance 7% Growth
1	70	$1,000,000	27.4	3.65%	($36,496)	$1,033,504
2	71	1,033,504	26.5	3.77%	(39,000)	1,066,849
--			--			--
10	79	1,277,882	19.5	5.13%	(65,532)	1,301,801
--			--			--
15	84	1,369,220	15.5	6.45%	(88,337)	1,376,728
16 (year of death)	85	1,376,728	14.8	6.76%	(93,022)	1,380,077
				Total RMDs	**($986,008)**	

At Mr. K's death, Mrs. K is the outright beneficiary of the IRA.

In year following Mr. K's death, Mrs. K (age 79) will roll IRA into her own name and take first RMD (if Mrs. K were under age 70½ at the time of the rollover, the RMDs would begin at her age 70½).

Year	Mrs. Kugler's Age	IRA Beginning Balance	Uniform Table Life Expectancy	Applicable Percentage	RMD	IRA Ending Balance 7% Growth
1	79	$1,380,077	19.5	5.13%	($70,773)	$1,405,909
2	80	1,405,909	18.7	5.35%	(75,182)	1,429,141
3	81	1,429,141	17.9	5.59%	(79,840)	1,449,340
4	82	1,449,340	17.1	5.85%	(84,757)	1,466,037
5	83	1,466,037	16.3	6.13%	(89,941)	1,478,719
6	84	1,478,719	15.5	6.45%	(95,401)	1,486,828
7	85	1,486,828	14.8	6.76%	(100,461)	1,490,445
				Total RMDs	**($596,356)**	

At Mrs. K's death, the son is the sole designated beneficiary. However, the RMDs will now be based on the son's (age 50) fixed period life expectancy in the year <u>following</u> Mrs. K's death.

At Mrs. K's Death: Payout to son for 34.2 year fixed period life expectancy

Year	Son's Age	IRA Beginning Balance	Fixed Life Expectancy Table V	Applicable Percentage	RMD	IRA Ending Balance 7% Growth
1	50	$1,490,445	34.2	2.92%	($43,580)	$1,551,195
2	51	1,551,195	33.2	3.01%	(46,723)	1,613,056
--						
10	59	2,060,444	25.2	3.97%	(81,764)	2,122,911
--						
20	69	2,529,047	15.2	6.58%	(166,385)	2,539,696
--						
30	79	1,833,037	5.2	19.23%	(352,507)	1,608,843
--						
35	84	147,674	0.2	100.00%	(158,011)	(0)
				Total RMDs	**($6,337,349)**	

If son dies before 34.2 years, RMDs will continue to son's designated beneficiary (assume Mr. K's grandson).

Kugler Brother 2
Beneficiary: Conduit QTIP

During Mr. K's Lifetime (Uniform Table life expectancy)

Year	Mr. Kugler's Age	IRA Beginning Balance	Uniform Table Life Expectancy	Applicable Percentage	RMD	IRA Ending Balance 7% Growth
1	70	$1,000,000	27.4	3.65%	($36,496)	$1,033,504
2	71	1,033,504	26.5	3.77%	(39,000)	1,066,849
--			--			--
10	79	1,277,882	19.5	5.13%	(65,532)	1,301,801
--			--			--
15	84	1,369,220	15.5	6.45%	(88,337)	1,376,728
16 (year of death)	85	1,376,728	14.8	6.76%	(93,022)	1,380,077
				Total RMDs	**($986,008)**	

At Mr. K's death, Mrs. K (then age 78) will be recognized as sole designated beneficiary via conduit QTIP. However, she is not the IRA owner (cannot roll over); therefore, her single life expectancy (redetermined) in the year <u>of</u> Mr. K's death under Table V may be used for RMD calculations. She is not required to take the first distribution until the following year (if Mr. K died prior to age 70½, then RMDs may be deferred until he would have reached age 70½).

At Mr. K's Death; payout to Mrs. K via conduit QTIP (redetermined single life expectancy)

Year	Mrs. Kugler's Age	IRA Beginning Balance	Table V Single Life Expectancy	Applicable Percentage	RMD*	IRA Ending Balance 7% Growth
1	79	$1,380,077	10.8	9.26%	($127,785)	$1,348,897
2	80	1,348,897	10.2	9.80%	(132,245)	1,311,075
3	81	1,311,075	9.7	10.31%	(135,162)	1,267,688
4	82	1,267,688	9.1	10.99%	(139,306)	1,217,120
5	83	1,217,120	8.6	11.63%	(141,526)	1,160,793
6	84	1,160,793	8.1	12.35%	(143,308)	1,098,741
7	85	1,098,741	7.6	13.16%	(144,571)	1,031,081
				Total RMDs	**($963,903)**	

At Mrs. K's death, the son is the sole designated beneficiary. However, the RMDs are based on Mrs. K's fixed period single life expectancy in the year <u>of</u> her death.

* The RMD is greater than the assumed 3% income earned by the IRA. However, if the IRA income were greater, the distribution from the IRA would be increased to satisfy the QTIP spousal income requirement.

At Mrs. K's Death: Payout to son for Mrs. K's 7.6 year fixed period life expectancy

Year	Son's Age	IRA Beginning Balance	Fixed Life Expectancy Table V	Applicable Percentage	RMD	IRA Ending Balance 7% Growth
1		$1,031,081	7.6	13.16%	($135,669)	$967,588
2		967,588	6.6	15.15%	(146,604)	888,715
3	Not	888,715	5.6	17.86%	(158,699)	792,226
4	A	792,226	4.6	21.74%	(172,223)	675,459
5	Factor	675,459	3.6	27.78%	(187,627)	535,114
6		535,114	2.6	38.46%	(205,813)	366,759
7		366,759	1.6	62.50%	(229,224)	163,208
8		163,208	0.6	100.00%	(174,632)	(0)
				Total RMDs	**($1,410,492)**	

Kugler Brother 3
Beneficiary: Accumulation QTIP

During Mr. K's Lifetime (Uniform Table life expectancy)

Year	Mr. Kugler Married (Age)	IRA Beginning Balance	Uniform Table Life Expectancy	Applicable Percentage	RMD	IRA Ending Balance 7% Growth
1	70	$1,000,000	27.4	3.65%	($36,496)	$1,033,504
2	71	1,033,504	26.5	3.77%	(39,000)	1,066,849
--			--			--
10	79	1,277,882	19.5	5.13%	(65,532)	1,301,801
--			--			--
15	84	1,369,220	15.5	6.45%	(88,337)	1,376,728
16 (year of death)	85	1,376,728	14.8	6.76%	(93,022)	1,380,077
				Total RMDs	**($986,008)**	

At Mr. K's death, Mrs. K (age 78) will be the oldest beneficiary of the QTIP Trust. Therefore, her life expectancy will be used for retirement distribution calculations. However, she is not the sole designated beneficiary. As a result, her single life expectancy is **not** redetermined under Table V. Thus the payout is for a fixed period based upon her life expectancy (10.8 years) in the year **following** Mr. K's death.

At Mr. K's Death; 10.8 year fixed period (life expectancy at age 79) payout to traditional QTIP

IRA				QTIP			
Year	Beginning Balance	RMD paid to QTIP	Ending Balance	3% IRA Income to Mrs. K via QTIP	Difference Between RMD and 3% QTIP	Cumulative after Tax (40%) difference	3% from prior year's QTIP balance to Mrs. K
1	$1,380,077	($127,785)	1,348,897	($41,402)	($86,383)	($51,830)	$0
2	1,348,897	(137,643)	1,305,678	(40,467)	(97,176)	(110,135)	(1,555)
3	1,305,678	(148,372)	1,248,703	(39,170)	(109,202)	(175,656)	(3,304)
4	1,248,703	(160,090)	1,176,022	(37,461)	(122,629)	(249,234)	(5,270)
5	1,176,022	(172,944)	1,085,399	(35,281)	(137,664)	(331,832)	(7,477)
6	1,085,399	(187,138)	974,239	(32,562)	(154,576)	(424,577)	(9,955)
7	974,239	(202,966)	839,469	(29,227)	(173,739)	(528,821)	(12,737)*
	Total	**$(1,136,939)**		**($255,570)**			**($40,298)**

At Mrs. K's death, the son is the sole designated beneficiary. However, the RMDs are now based on Mrs. K's remaining unused fixed period life expectancy in the year of her death.

At Mrs. K's Death: Payout to son is for Mrs. K's remaining unused 3.8 year life expectancy

IRA				QTIP			
Year	Beginning Balance	RMD paid to QTIP	Ending Balance	3% IRA Income to Son via QTIP	Difference Between RMD and & 3% QTIP	Cumulative after Tax (40%) difference	3% from prior year's QTIP balance to son
1	$839,469	($220,913)	$677,319	(25,184)	(195,729)	(646,258)	(15,865)
2	677,319	(241,900)	482,832	(20,320)	(221,580)	(779,206)	(19,388)
3	482,832	(268,240)	248,390	(14,485)	(253,755)	(931,459)	(23,376)
4	214,592	(265,777)	0	(7,452)	(258,326)	(1,086,455)	(27,944)
	Total	**(996,830)**		**(67,440)**			**(86,572)**

Note: The RMD is greater than the assumed 3% income earned by the IRA. The excess (after-tax) is accumulated in the QTIP trust to eventually be paid to the remainder beneficiary. However, if the IRA income were greater, the distribution from the IRA would be increased to satisfy the QTIP spousal income requirement.

Kugler Brother 4
Beneficiary: Mrs. K outright

During Mr. K's Lifetime (Uniform Table life expectancy)

Year	Mr. Kugler's Age	IRA Beginning Balance	Uniform Table Life Expectancy	Applicable Percentage	RMD	IRA Ending Balance 7% Growth
1	70	$1,000,000	27.4	3.65%	($36,496)	$1,033,504
2	71	1,033,504	26.5	3.77%	(39,000)	1,066,849
--			--			--
10	79	1,277,882	19.5	5.13%	(65,532)	1,301,801
--			--			--
15	84	1,369,220	15.5	6.45%	(88,337)	1,376,728
16 (year of death)	85	1,376,728	14.8	6.76%	(93,022)	1,380,077
				Total RMDs	**($986,008)**	

At Mr. K's death, Mrs. K is the outright beneficiary of the IRA.

In year following Mr. K's death, Mrs. K (age 79) will roll IRA into her own name and take her first RMD (if Mrs. K were under age 70½ at the time of the rollover, the RMDs would begin at her age 70½).

Year	Mrs. Kugler's Age	IRA Beginning Balance	Uniform Table Life Expectancy	Applicable Percentage	RMD	IRA Ending Balance 7% Growth
1	79	$1,380,077	19.5	5.13%	($70,773)	$1,405,909
2	80	1,405,909	18.7	5.35%	(75,182)	1,429,141
3	81	1,429,141	17.9	5.59%	(79,840)	1,449,340
4	82	1,449,340	17.1	5.85%	(84,757)	1,466,037
5	83	1,466,037	16.3	6.13%	(89,941)	1,478,719
6	84	1,478,719	15.5	6.45%	(95,401)	1,486,828
7	85	1,486,828	14.8	6.76%	(100,461)	1,490,445
				Total RMDs	**($596,356)**	

At Mrs. K's Death: Payout to grandson for 53.3 year fixed period single life expectancy

Year	Grand-son's Age	IRA Beginning Balance	Fixed Life Expectancy Table V	Applicable Percentage	RMD	IRA Ending Balance 7% Growth
1	30	$1,490,445	53.3	1.88%	($27,963)	$1,566,812
10	39	2,305,431	44.3	2.26%	(52,041)	2,414,769
20	49	3,571,389	34.3	2.92%	(104,122)	3,717,264
30	59	5,092,612	24.3	4.12%	(209,573)	5,239,523
40	69	6,108,868	14.3	6.99%	(427,194)	6,109,295
50	79	3,929,373	4.3	23.26%	(913,808)	3,290,622
54	83	482,183	0.3	100.00%	(515,936)	0
				Total RMDs	**($16,320,607)**	

If grandson dies before 53.3 years, RMDs will continue to the designated beneficiary.

RESULTS AND BENEFITS

- ❑ Brother No. 1, **outright to spouse** and subsequent rollover with **son** as remainder beneficiary.

Years		RMDs	IRA Balance
16	During Mr. K's Lifetime	$986,008	$1,380,077
7	During Mrs. K's Lifetime	596,356	1,490,445*
34	During Son's Lifetime	6,337,349	0
57		$**7,919,713**	

- ❑ Brother No. 2, **conduit QTIP trust** (spouse is sole designated beneficiary) with son as remainder beneficiary.

Years		RMDs	IRA Balance
16	During Mr. K's Lifetime	$986,008	$1,380,077
7	During Mrs. K's Lifetime	963,903	1,031,081*
8	During Son's Lifetime	1,410,492	0
31		$**3,360,403**	

- ❑ Brother No. 3, an accumulation **QTIP trust** (spouse is not sole designated beneficiary) with son as remainder beneficiary.

Years		RMDs	3% IRA Income via QTIP	Ending IRA Balance	After-Tax QTIP Balance	3% Income from QTIP Balance	IRA & QTIP Balance
16	During Mr. K's lifetime	(986,008)	$0	1,380,077	$0	$0	1,380,077
7	During Mrs. K's lifetime	(1,136,939)	255,570**	839,469	528,821	$40,298**	1,368,290*
4	During son's lifetime	(996,830)	67,440	0	1,086,455	86,572	1,086,455
27		**($3,119,777)**	**$323,011**			**$126,870**	

- ❑ Summary of RMD Payout: 16 years to Mr. K $986,008; 7 years to the QTIP Trust during Mrs. K's lifetime $1,136,939; and 3.8 additional years to the QTIP Trust after Mrs. K dies for the balance of her 10.8 year life expectancy $996,830.

- ❑ Note: the QTIP balance is the cumulative after-tax (assume 40%) RMDs in excess of 3% QTIP income paid out to Mrs. K for her lifetime and then to their son for four years. The QTIP trust is assumed to grow by a net 4% each year (7% growth less 3% income payout).

- ❑ Brother No. 4, **outright to spouse** and subsequent rollover with grandson as remainder beneficiary.

Years		RMDs	IRA Balance
16	During Mr. K's lifetime	$986,008	1,380,077
7	During Mrs. K's lifetime	596,356	1,490,445*
54	During Grandson's lifetime	16,320,607	0
77		**$17,902,972**	

* Estate tax is assumed to be payable from other estate assets or life insurance.

** The total payout to Mrs. K would be $295,868 (3% income from IRA $255,570 plus 3% income from QTIP $40,298). Mrs. K is entitled to income earned on IRA and QTIP assets, but not the RMD.

<>. The benefit of a Stretch Roth IRA. During lifetime, make more of your retirement money Roth monies. Either contribute to a Roth IRA if eligible or convert small segments of IRAs to Roth during lifetime. (Note: re-characterization no longer permitted.) Generally, no taxation on any Roth amounts paid.

a. Pay benefits outright to a beneficiary or to a stretch Preservation Trust for the benefit of the beneficiaries.

b. Need to address backup trustees and flexibility.

c. Possible greater use of separate Preservation Trusts for separate beneficiaries because of the duration and magnitude of the payments.

d. If the trust is going to be an accumulation trust versus a conduit trust, make sure the situs of your trust is tax favorable.

Kugler $450,000 Roth IRA
In Trust for 30 Year Old Grandchild
Upon Mr. K's Death

Mr. Kugler's Age	IRA Beginning Balance	
85	$450,000	Death

At Mr. K's Death: Payout to a grandchild for 53.3 year fixed period
using single life expectancy table

Year	Grand-child's Age	Roth IRA Beginning Balance	Fixed Life Expectancy Table V	Applicable Percentage	RMD	Roth IRA Ending Balance 7% Growth
1	30	$ 450,000	53.3	1.88%	($8,443)	$ 473,057
10	39	696,063	44.3	2.26%	(15,712)	729,075
20	49	1,078,286	34.3	2.92%	(31,437)	1,122,329
30	59	1,537,578	24.3	4.12%	(63,275)	1,581,934
40	69	1,844,539	14.3	6.99%	(128,980)	1,844,539
50	79	1,186,369	4.3	23.26%	(275,900)	993,515
54	83	145,582	0.3	100.00%	(145,582)	0
				Total RMDs	**($4,927,572)**	

If grandchild dies before 53.3 years, RMDs will continue to the designated beneficiary.
Total cumulative Roth IRA distribution to grandchild $4,927,572
Total federal and state taxes due on distribution 0

Additional random thoughts regarding effect of 2017 legislation on qualified plans:

1. IRA advisory fees, trustee fees and account fees paid outside of the IRA are no longer deductible. How about changing and having the IRA pay them?

2. When all amounts have been distributed from a Roth IRA and the amount withdrawn was less than contributed, a loss will no longer be permitted.

3. IRAs that own two or more unrelated trade or businesses will no longer be able to net them when calculating UBTI.

4. With decreasing tax rates, how about making your employee contributions to 401(k) plans that contain a Roth 401(k) option versus traditional tax deductible 401(k) deposits. If elected, deposit in sepate investment vehicles.

5. Problems and Solutions on Distributions

   a. Will says pay everything equally to all three children. Beneficiary Form says to pay 100% of the benefit to predeceased spouse and contingent beneficiary one child. (NOTE: Many of the contingent beneficiary mistakes were corrected when the first parent passed away. With the $11,400,000 federal exemption and with no or generally increased state exemption and with many advisors saying why bother to elect portability, these problems were not addressed.) Now what? The Beneficiary Form controls or

   b. No beneficiary listed and master plan document says how payable

      i. to my estate;
      ii.to my spouse if he/she survives me and if not to my issue, per stirpes or per capita.

   c. What alternatives do we have?

      i. Disclaim;
      ii. Divide;
      iii. Distribute – why because we want the stretch!