Trust Connection

Building Lasting Relationships for the Benefit of our Mutual Clients

TRUST NEWS AND INFORMATION FROM YOUR TRUST REPRESENTATIVE OFFICE

Welcome to ***Trust Connection***, a regular communication from Valley National Trust Services.

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VALLEY NATIONAL FINANCIAL ADVISORS & VALLEY NATIONAL TRUST SERVICES
a Trust Representative Office of National Advisors Trust Company, FSB

Estate Planning and Individual Retirement Accounts

While the concept of an individual retirement account (IRA) seems fairly straightforward, the rules that apply to distributions can be quite complicated. They are even more complex following your death. The Internal Revenue Service has devoted some of the most complicated rules in the book for inherited IRA distributions. A thoughtful estate plan can avoid the additional burden on your heirs having to navigate this complexity.

Pre-tax assets, such as traditional IRAs and qualified retirement plan balances, require a full understanding on the part of your estate planning team, which may include your advisor, attorney, accountant, and trustee. Non-tax issues must also be taken into consideration, including your plan of distribution and the life plans of your heirs.

Here are some things to consider regarding pre-tax assets when putting together your estate plan:

- When it comes to your IRA, the most important document is not your will or trust – it's the beneficiary designation. Regardless of what the other documents say, the proceeds of the account will go to the party named in the beneficiary form. If you have not completed a beneficiary form, it will be paid out according to the default provisions in the account agreement. This is why it's so important to retain copies of your beneficiary designations, review them periodically, and provide update-to-date copies to all members of your estate planning team.

- If you have funds that you won't need during your retirement, consider converting your traditional IRA to a Roth IRA. While you will be paying current income tax on the conversion, the Roth IRA will grow forevermore on a tax-free basis. Moreover, annual required minimum distributions (RMDs) are not required during your lifetime, leaving even more in the account to grow tax-free. However, before deciding to convert a traditional account to a Roth, you should consider your current tax bracket to those of your beneficiaries. It may make more sense to leave it as a traditional IRA. Your trusted advisors can assist you in making this complex calculation.

- Remember that IRA distributions can often be stretched over the life of a beneficiary. While RMDs will be required during the beneficiary's lifetime, a younger beneficiary has a longer lifetime. For example, you can name your grandchildren as your IRA beneficiaries, and if they are very young, the impact of tax-deferred can be impressive. If you decide to create a "stretch" IRA, make sure that the guardian of your beneficiary is sufficiently responsible to manage the account prudently.

- Regardless of your other decisions regarding the disposition of your IRA, it's a good idea to communicate your intentions to the beneficiary. In particular, make sure they understand that the RMD rules will apply – if less than the required amount is distributed annually, the account is subject to a 50% penalty on the amount that was supposed to have been distributed but wasn't.

This is an area where your financial advisor can be of great assistance to you.

A wise person, probably a financial advisor, once noted that tax-free compounding is the "eighth wonder of the world." And a tax-deferred account such as an IRA is one of the few areas where tax-free compounding can occur for an extended period of time. Compliance with the complicated rules and regulations can be a trap for the unwary, so rely on your financial advisor to help you confidently navigate an estate plan that accomplishes your desires and creates a lasting financial legacy.