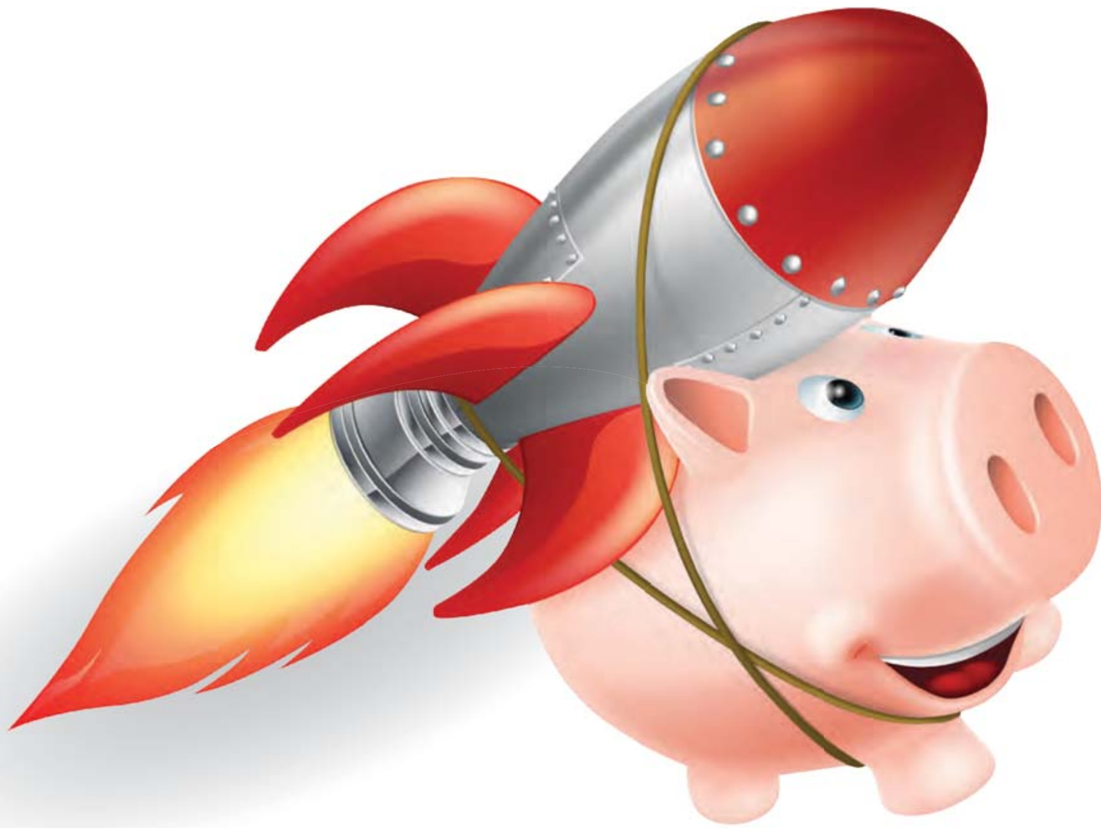

SUPERCHARGE YOUR IRA*

Strategies for Maximizing Your Retirement Plans for Your Family

And other retirement plans

SUPERCHARGE YOUR IRA

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Who Should Read This Booklet?

I'll bet you're wondering if you should bother reading this guide?

Do you have IRAs (or other tax-deferred retirement accounts) worth $200,000 or more?

Then you should learn how to ***Supercharge Your IRA****…*because what you don't know may cost your family *millions!*

For clarity, I'll simply refer to "IRAs" for the remainder of this report, but please know that the information contained in this report also applies to 401(k), 403(a), 403(b), 457, and other company retirement plans.

Thanks to the IRS rules, your beneficiaries (the people who receive your IRAs after you are deceased) have the option to "stretch out" their taxable, required minimum distributions over their *own* life expectancy rather than having to cash out the account upon your death. This means your IRA monies could compound income-tax free for a much longer period and grow to be worth millions!

For instance, let's suppose you have $350,000 in your IRAs upon your death, and your beneficiary is 50 years old when he or she inherits them. Assuming the accounts grow at 6% per year and your beneficiary only takes the required minimum distributions, just look at this incredible growth:

At age 80, your beneficiary will already have received nearly $900,000 of distributions and still have over $225,000 remaining in your IRAs. (The remainder may continue to grow tax-free and be passed on for your grandchildren)!

As the result of the IRS "stretchout" rules, your IRAs, in time, may be worth over a million dollars, and become the largest assets you leave to your loved ones!

The problem is, this income tax "stretchout" is *not* automatic.

You need to do proper advance planning.

Your IRA must have the right beneficiaries!

And chances are, the ones you have now are *not accurate!*

You *can* name your children or other individuals as beneficiaries of your IRAs, but that may be a disaster! Why? Because…

Your beneficiaries may unintentionally squander the income tax "stretchout" and potentially cost your family millions!

This might sound dramatic, but it happens quite often. It could happen because your beneficiaries are not aware of the tax rules and their distribution choices. Or, a beneficiary, influenced by their spouse or another unscrupulous third party, could just decide to withdraw your life savings and spend or invest it carelessly.

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And even if we assume that your beneficiaries do the right thing and maximize the income tax “stretchout” of your IRAs, your life savings may still be severely exposed to these threats:

- Your **son-in-law or daughter-in-law cashing in on half (or more) of the inherited IRAs in a Divorce!** (Keep in mind that the divorce rate in the U.S. is over 50% and that this large sum of inherited money may become a divorce incentive. Also, consider that your beneficiary might get married or re-married after you’re gone… and the new spouse just might be a “gold digger.”
- *Your beneficiaries may spend it all due to* ***Bad Money Management*** (especially if some of your IRA proceeds eventually pass down to grandchildren or others who are young or financially inexperienced!)
- Your beneficiaries’ **Creditors and Lawsuits** may seize all the Inherited IRAs!
- Your beneficiary could ***lose his or her needs-based government benefits*** (if he or she ever needs them), including supplemental income (SSI) or long-term nursing care (Medicaid). Even if your beneficiary does not currently qualify for this assistance, an accident or major medical event could always trigger a need for future benefits.
- ***If anything happens to your child, your in-laws could be a liability!*** If your child is married, they will likely name their spouse as beneficiary of the account—which means that if your child dies, the account will end up with your in-law! From there, your in-law might blow it, get remarried and spend it with the new spouse, etc. leaving nothing to pass on to your grandchildren.
- And even if your beneficiary never encounters any of these problems, he or she may get walloped with a ***huge estate tax*** bill when he or she passes your IRAs down to the next generation.

By the way, if you’re thinking that naming your Living Trust as the beneficiary of your IRAs and company plans will minimize these problems *and* qualify for the maximum “stretchout” of income taxes, think again. As we’ll discuss…

You may need an IRA Protection Trust in addition to your Living Trust!

But First…

Congratulations on Your Hard Work!

If you’re like most folks, it probably took decades of hard work, patience, and self-restraint to live within your means, contribute to your savings and build up your retirement plan. And whether you’re approaching retirement or already enjoying your golden years, you’re likely reading this because after all that hard work and patience, you don’t want you or your family to lose it all.

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Perhaps you want to help make life easier for your children and grandchildren, who may be saddled with debt and skyrocketing education costs. Maybe, you want to protect your legacy from the future traps or misfortunes that could befall your family.

The good news is that you have diligently prepared for retirement. The bad news is that most people—even well-educated, financially-savvy people—miss out on this huge planning opportunity because they do what everyone else is doing.

In this report, we're going to show you what's wrong with the way that "everybody else does it," and what steps you should be taking to ensure your family gets the most out of your inherited retirement accounts.

The Power of Exponential Growth

While reading the introduction, you may have been surprised to learn that your $350,000 IRA could potentially provide $1 million or more to your family.

If it took your entire lifetime to accumulate your retirement accounts worth $350,000; $500,000; or more, then it might be mind-boggling to consider that those accounts could be worth millions. But that, my friends, is the beauty of exponential growth.

Have you ever heard of the "Rule of 72"? It's a little math and investing trick for estimating how long it will take for an investment to double in value. If you divide the number 72 by your estimated rate of annual growth, the result is roughly how long it would take your investment to double.

For example, consider an estimated annual growth rate of 6%. Divide the number 72 by 6, and the result is 12. At a 6% growth rate, an investment will double in about 12 years. The Rule of 72 is a handy tool to quickly figure out how long or what interest rate it will take to achieve your financial goals.

So, let's look at a few examples in action:

Let's assume you are 50 years old. The following table shows the projected growth of your IRA accounts if you were earning an estimated annual rate of return of 6%:

Current Value	Age 62 (12 years)	Age 74 (24 years)
$200,000	$400,000	$800,000
$500,000	$1,000,000	$2,000,000
$750,000	$1,500,000	$3,000,000
$1,000,000	$2,000,000	$4,000,000
$1,500,000	$3,000,000	$6,000,000

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However, keep in mind that the table above is a bit of a simplification, because the IRS will require you to take Required Minimum Distributions starting at age 70 ½, but the general idea is that exponential growth can be extremely powerful. Even between the ages of 70 ½ and 74, the Required Minimum Distributions are less than 6%, so your account could still be growing substantially.

What Happens to Retirement Accounts Upon the Owner's Death?

We find that many of our clients understand the general rules of how IRAs work for themselves. As the owner, you contribute to the account, and it grows tax-deferred. Once you are 59 ½ or older, you can withdraw from the account without penalty, but any amounts that you withdraw will be taxed as ordinary income. At age 70 ½, the IRS requires you to start taking Required Minimum Distributions. But how are these accounts taxed once they are passed down to your beneficiaries?

Unfortunately, the answer is not always clear-cut. Inherited IRAs are subject to their own separate set of rules. Upon the account owner's death, there are three possible scenarios for what might happen to the account:

Option 1: Cash Out the Account

Your child or beneficiary could opt to withdraw all the funds at once. **But that is usually a terrible idea** because that makes the entire account immediately taxable! Because the withdrawal happened all at once, it would all be treated as ordinary income on your child's tax return—meaning that it would likely push them into a much higher income tax bracket and they would owe a HUGE tax amount come April 15th!

We've seen it happen. *People do it all the time*—even some beneficiaries we would expect to know better. Gaining access to that much cash is far too tempting. Even worse, many don't understand the full ramifications of the taxes, so by April 15th when the tax bill is due—the money has already been spent!

This may be done intentionally or unintentionally. We've seen it happen for a variety of reasons: the beneficiary just not knowing any better; the beneficiary making poor financial decisions; the beneficiary listening to a "well-intentioned" person at the bank trying to help them claim the account as soon as possible after the owner's death without informing the beneficiary of their options (this happens a lot!).

Option 2A: Default 5-year Rule

If the account owner was under the age of 70 ½ years and had not begun taking Required Minimum Distributions, the beneficiary must withdraw all the funds within five years of the owner's death. Again, these distributions must be reported as ordinary income to the beneficiary, which very well could bump them into a higher tax bracket.

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Option 2B: Alternate Default Rule:

If the account owner was 70 ½ years of age or older and had begun taking Required Minimum Distributions (RMD) before the owner's death, then the beneficiary may opt to continue receiving the distributions on the same RMD schedule that the deceased owner would have used. Depending upon the age of the owner at time of death, this option may be slightly better or slightly worse than the default 5-year rule outlined above, but generally, the result will be pretty similar.

Option 3: Rollover IRAs and the "Stretchout":

Regardless of the original account owner's age, your child or beneficiary can use a "rollover." There are two types of rollovers: a spousal rollover and a non-spousal rollover.

For a surviving spouse, the spousal rollover is usually the best option.

As the name implies, a spousal rollover is only available to the surviving spouse of the original account owner and is a well-known tool among financial professionals. With the spousal rollover, the surviving spouse can rollover the account to their own name and treat the account as their own. If the surviving spouse is under the age of 70 ½, the surviving spouse can make additional contributions to the account and also defer distributions from the account until age 70 ½ —the age Required Minimum Distributions begin.

The non-spousal rollover is not nearly as well understood among financial, tax, or legal professionals. Over a decade ago, Congress passed the Pension Protection Act of 2006. Similar to many bills coming out of Congress, this bill addressed pension plans, however; there were a handful of other topics included, one of which pertained to the non-spousal rollover option.

The non-spousal rollover rules are much more specific. Your child or beneficiary cannot just treat the account as their own. Nor can they make additional contributions to it. Instead, the IRA must be rolled over into a new account, called an "Inherited IRA." Please note that even if the original plan was a 401(k) or another type of retirement plan, once it is rolled over, it will still be considered an Inherited IRA.

Unlike a spousal rollover, with an Inherited IRA, the child or beneficiary cannot add additional funds to the account or defer distributions until age 70 ½. Instead, the beneficiary must take Required Minimum Distributions each year, beginning the year after the death of the original account owner. The amount of the Required Minimum Distribution is based upon the life expectancy of the beneficiary. Therefore, the younger the beneficiary is, the smaller the required distribution will be. And, the lower the required minimum distribution—the more the asset can continue to grow tax-deferred inside the Inherited IRA.

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This option is often referred to as the “stretchout” option because it allows the beneficiary to stretch out the Inherited IRA over their lifetime, so they can continue to enjoy tax-deferred growth on the account, rather than having to liquidate the account within five years or less.

The following table demonstrates the dramatic impact the age of the beneficiary can have on the lifetime value of the Inherited IRA. The table assumes that the beneficiary inherited a $200,000 IRA and selected the “stretchout” option and only took the required minimum distributions over the course of their lifetime. At an assumed rate of return of 6%, the table displays the total accumulated value of the distributions that the beneficiary would receive over the course of his or her lifetime:

$200,000 Inherited IRA (“Stretchout”) at 6% Annual Rate of Return	
Age of Beneficiary at Time of Inheritance	Combined Value of Distributions Over Beneficiary’s Lifetime
65	$424,367
55	$579,785
45	$828,880
35	$1,228,822
25	$1,861,915
15	$2,866,032
5	$4,496,506

As you can see, the age of the beneficiary can have a significant impact on the lifetime value of the Inherited IRA. As part of the estate planning process, you may wish to consider allocating all or a portion of your retirement accounts directly to your grandchildren if you have other assets or life insurance to leave to your children.

So, if this “stretchout” is such a valuable option, why don’t more people take advantage of it?

We’ve discussed the power of exponential growth and what could happen if things go “right” with your retirement assets. Now let’s discuss where things often go wrong. Unless you supercharge your IRA, there’s no guarantee that your beneficiaries will take advantage of all the potential benefits your accounts can provide. Why?

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Wealth Waster #1: Lots of Traps and No "Do-Overs"

When the IRA owner dies, there are many specific rules about what the beneficiary can and cannot do. There are critical filings and deadlines. Unfortunately, along the way, there are many traps that the beneficiary can fall into that "blow" the stretchout. And one mistake is all that it takes; there are no "do-overs" with these rules. If the beneficiary makes a serious error, there likely will not be any way to resolve it and still qualify for the stretchout benefit.

While you might think that your beneficiary should be able to get the proper advice from the bank or financial institution, sadly, that is often not the case. Sometimes, it's that the advisors don't fully understand how the stretchout benefit works or how to complete and submit the paperwork correctly. Other times, we've heard of advisors just giving flat out wrong advice, such as telling the beneficiary that their only option is to cash out the account, pay all the taxes, and then reinvest the remainder with the advisor in a regular brokerage account. This means that depending upon the value of your account; your beneficiary could end up paying close to 50% in income taxes between state and federal income taxes! (Which can, in turn, trigger other tax issues. For instance, if your beneficiary is retired, it could cause their social security earnings to be partially taxable or other similar problems, etc.)

Wealth Waster #2: Bad Decisions by Your Beneficiary

Did you know that most inheritances are spent within 18-36 months?

When you name a beneficiary directly on a retirement plan, it is entirely up to them as to whether they opt to cash out the account or choose the stretchout benefit option. For beneficiaries, inheritances are often like winning the lottery. There are all sorts of research and examples regarding the downside of "sudden wealth." One of the first things many beneficiaries do is go out and purchase a new vehicle. Think about the stories you see in the news about lottery winners, professional athletes, or performers that file for bankruptcy—most beneficiaries or recipients are not prepared for the responsibility of managing a sudden windfall.

Even if your beneficiary does select the "stretchout" option, they must continue to make sound financial decisions. While the IRS rules mandate that your beneficiary must withdraw the Required Minimum Distribution each year, he or she still has the option to withdraw a larger amount or liquidate the account entirely. Therefore, your beneficiary must continually exercise good judgment and not fall victim to advisors, spouses, or others that might encourage them to liquidate the account or make other rash decisions.

Wealth Waster #3: In-Laws Turned Outlaws

In light of today's 50% divorce rate, crossing your fingers and saying "it won't happen to my children" is probably not a good planning strategy. When your child initially inherits

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assets from you, they are considered “separate property” that should not be subject to division in a divorce. But over time, the wall of separation often begins to deteriorate.

Depending on how your beneficiary uses the funds from the account, an argument can be made that some or all of the funds have been converted to marital property. This becomes a concern, for example, if some of the funds are used to pay the mortgage on the marital home, purchase a vacation property, or pay for household expenses.

But let’s hope your beneficiary doesn’t get divorced. Still, consider that when they die, they will probably name their spouse as the beneficiary on the Inherited IRA. It’s likely that their surviving spouse will get remarried, possibly even have more children, etc. And now, suddenly, the Inherited IRA is subject to the poor choices and indiscretions of people you’re not even related to. Next thing you know, not a penny of the account ever makes it to your grandchildren.

Wealth Waster #4: Bad News, The Supreme Court Took Away Your Children’s IRA Protection

Perhaps, you’ve been told previously that your IRA is protected from lawsuits and creditors? That’s true.

However, in 2014, in *Clark v. Rameker*, the U.S. Supreme Court ruled that **Inherited IRAs (i.e., the “stretchout” IRAs) are NOT protected under federal law** and therefore are NOT shielded from creditors or bankruptcy.

What if your child causes a fatal car accident that leads to a large lawsuit judgment? Or what if your child has a serious medical event and the hospital bills put your child into bankruptcy (one of the most common causes of bankruptcy)?

Your child’s Inherited IRA is at risk to lawsuits and creditors.

Consider that through the power of the exponential growth on the Inherited IRA, the account could be worth significantly more in the future. The bigger the IRA, the juicier a target for lawsuits and creditors.

Wealth Waster #5: Naming a Minor as a Beneficiary

If your children or grandchildren are minors, then it’s probably not a wise idea to name them directly as beneficiaries of a retirement plan. An individual must be at least 18 years of age to legally “own” something. Therefore, if you die while your beneficiary is still a minor, a guardian will be appointed to manage the account on behalf of the minor beneficiary. On the beneficiary’s 18th birthday, he or she will be given complete access and control over the account. Do you think your beneficiary, at 18 years old, is going to make smart financial decisions at such a young age? Probably not.

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Wealth Waster #6: Failing to Protect Beneficiaries who are Disabled or Have Special Needs

Do you have a beneficiary who is disabled or has special needs? If your beneficiary is the recipient of important government benefits such as Medicaid or Supplemental Security Income (SSI), then directly inheriting an IRA will likely cause them to lose their benefits. In addition, the entire IRA may end up being spent on living expenses and medical care that would have otherwise been covered by government benefits.

Even if your beneficiary is not currently disabled, things can happen to anyone, and at any time. It's always good for your planning to contemplate the possibility of a disabled beneficiary.

With proper planning, you don’t have to disinherit a beneficiary who is disabled or has special needs. Instead, you can leave funds to supplement their government benefits to help them lead a better quality of life.

Wealth Waster #7: Future Estate Taxes

Let’s assume for a moment that your child is the perfect beneficiary. Your child properly filed for the Inherited IRA “stretchout” option. Your child properly filed for the Inherited IRA “stretchout” option. Your child only takes the Required Minimum Distributions to maximize the power of continued tax-deferred growth. Your child doesn’t experience a divorce, lawsuit, bankruptcy, disability, or similar catastrophe. Your child lives into their golden years, by which time the account has grown handsomely and is now worth millions, and then your child dies leaving the account to your grandchildren. But first, BAM! Estate taxes!

As of 2018, the estate tax exemption (i.e., the amount that you can pass free of estate taxes upon death) is $11.2 Million. Any assets more than the estate tax exemption amount are taxed at a 40% tax rate. While you may not currently have an estate tax concern, if your family takes advantage of the benefit of the exponential growth on your IRAs—your grandchildren could be left with a massive estate tax bill when your child passes away. And while there is certainly no guarantee that the future estate tax rates will be the same, is it worth the risk?

Other Common Mistakes:
Naming Your Estate or Living Trust as Beneficiary

After reading all of the above, you might think that a positive solution would be to name your estate as your beneficiary so that the executor you’ve chosen can manage your retirement plans for you. You chose them because they're responsible and you trust them, so what’s the harm, right?

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Unfortunately, the IRS rules require that if you designate your “estate” as the beneficiary of your retirement account, then the retirement account MUST be distributed according to the 5-year distribution rule. There is no Inherited IRA “stretchout” option.

Likewise, if you think that you'll be able to name your Living Trust as the beneficiary of your retirement plan, you’ll also run into similar problems. The IRS rules for qualifying for the Inherited IRA “stretchout” option are extremely specific, and a Living Trust typically will not qualify. Thus, if you name your Living Trust as the beneficiary of your retirement plan, your family will again be stuck with the mandatory 5-year distribution option upon your death, causing the account to be prematurely taxed thereby losing the benefit of tax-deferred growth.

The Solution: An IRA Protection Trust

The solution is to set up a Trust that is specifically designed to receive your retirement accounts. An IRA Protection Trust is separate from your Will or Living Trust. During your lifetime, you remain the owner of your retirement plan, but you name the IRA Protection Trust as the beneficiary of the account upon your death.

Frequently, the IRA Protection Trust will be designed to match the distribution pattern of your Will or Living Trust, but the IRA Protection Trust is designed precisely to comply with the IRA rules. This will ensure that your beneficiaries remain eligible for the Inherited IRA “stretchout” option.

In addition to ensuring your beneficiaries get the most out of their “stretchout” option, a properly structured IRA Protection Trust can provide several powerful protections. If someday your child goes through a divorce, the retirement accounts are completely protected. If your child is sued or files for bankruptcy, the retirement accounts are protected. If your child dies, the Trust ensures that the funds remain in your bloodline and continue on to your grandchildren.

If your child or beneficiary is a minor, you can specify who should serve as Trustee while they are young. Plus, rather than your child gaining full control of the account at age 18, you can choose the age your child gains access to the account.

If your beneficiary is disabled or has special needs (or becomes disabled in the future), the IRA Protection Trust can qualify as a “Special Needs Trust” so that the assets don’t count against your beneficiary when he or she is qualifying for Medicaid, SSI, or similar government benefits. This built-in protection allows the inherited money to be spent on allowable expenses, typically things not covered by Medicaid or SSI, so that your beneficiary has a better quality of life while still receiving their important medical benefits.

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How Does an IRA Protection Trust Work?

When you pass away, your IRA Protection Trust and supporting documents provide the trustee with instructions regarding the proper retitling of the account. Let's look at an example:

John Doe is the IRA owner. John has one daughter, Mary. During his lifetime, John Doe establishes the John Doe IRA Protection Trust. After establishing the John Doe IRA Protection Trust, John updates the beneficiary designation on his retirement account to name the John Doe IRA Protection Trust as the beneficiary of the account.

When John Doe dies, the retirement account does not roll over into Mary's name. Instead, it gets retitled as the John Doe IRA for the benefit of Mary Doe's separate share under the John Doe IRA Protection Trust.

Each year, the Required Minimum Distribution gets distributed from the retirement account into the IRA Protection Trust. From there, the Trustee of the IRA Protection Trust can decide whether or not to distribute funds from the IRA Protection Trust to Mary directly.

Who's in Control of the IRA Protection Trust?

Per John's preference, while he was living, he may have appointed Mary to be the Trustee, or he could have nominated a third party to oversee the operation of the Trust.

You decide who has financial control for each beneficiary of the IRA Protection Trust. If the beneficiary is a responsible adult, then you might name the beneficiary as trustee of his or her share. However, if the beneficiary is young, irresponsible, or disabled, then you might decide to appoint someone else who is more responsible or able, such as a close friend or family member, as Trustee for the beneficiary.

Within the trust document, you can also include instructions regarding use of the retirement account assets. Again, if your beneficiary is a financially responsible adult—you might give the Trustee-Beneficiary full discretion to decide the best use of the funds and how to distribute these funds accordingly.

But again, if your beneficiary is young, irresponsible, or disabled, then you might choose to give the Trustee more specific instructions regarding the use of said funds.

If your beneficiary is young, then you might specify that he or she has permission to become his or her own Trustee at a certain age.

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Frequently Asked Questions

Who Pays the Taxes on the Required Minimum Distributions?

It depends. If the Trustee distributes all of the Required Minimum Distribution to the beneficiary directly before the end of the year, then the beneficiary will be responsible for reporting the Required Minimum Distribution amount on his or her individual income tax return as well as paying the income taxes on said distribution.

If the Trustee decides to allow some of the Required Minimum Distribution to accumulate within the trust, rather than distributing it out to the beneficiary, then the Trust will be responsible for reporting and paying the income taxes on the distribution.

Under the current income tax rules, the Trust may be subject to a higher tax rate than the designated beneficiary. Therefore, assuming that the beneficiary is not a spendthrift or receiving public benefits, then the Trustee will likely decide to distribute the funds to the beneficiary in order to reduce income taxes owed.

Note that paying for something on behalf of the beneficiary also constitutes making a distribution to the beneficiary. For example, if the Trustee uses the Required Minimum Distribution to pay for the beneficiary's college tuition, for tax purposes, this counts as having distributed the funds to the beneficiary.

In some instances, though, if the beneficiary is a spendthrift who would frivolously spend the funds, or if the beneficiary would potentially lose critical public benefits if a distribution is made, then the Trustee may decide that the more prudent option is to allow the funds accumulate within the Trust, even if it means that a higher tax rate will be incurred. Better to protect some of the funds at the expense of higher taxes than to see all the funds depleted so quickly.

Is There a Cost to Maintain the IRA Protection Trust?

The IRA Protection Trust requires very little upkeep during your lifetime. It is an empty trust during your lifetime, waiting to receive your retirement accounts upon your death. Therefore, there isn't anything to really maintain. The only required upkeep is making sure that as you open any new retirement accounts or change your retirement accounts, you ensure that the IRA Protection Trust is properly named as the beneficiary. Also, if there were a potential dramatic change in the law, then an update to the trust might be needed.

How Do I Set Up the Beneficiary Designations on my Retirement Accounts if I have an IRA Protection Trust?

As part of your planning, we will provide you with the specific wording for your beneficiary designations based on the design of your particular plan and also help you complete the beneficiary designation forms for the account. It is vital that the

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designations be structured correctly so that each beneficiary can "stretchout" their share over his or her life expectancy. Improper beneficiary designations can leave younger beneficiaries stuck only being able to stretch the account out based upon the age of the oldest beneficiary of the trust. So, don't worry, we'll help you with setting up your beneficiary designations.

How Does this Compare to a "Restricted Beneficiary Payout" Annuity or "Trusteed IRA"?

Some insurance companies and banks have begun touting products claiming to preserve the "stretchout" benefits for the beneficiaries. **But consider at what cost?** These products usually have built-in fees and expenses. They may not allow for as much flexibility when it comes to investment options or making distributions to the beneficiaries. Ultimately, they lack the protection from future lawsuits, creditors, bankruptcy, and protection of government benefits for any disabled beneficiaries.

Case Studies

Let's discuss two different ways inheritance can play out when a retirement account is involved.

The 'Cross Your Fingers' Approach

Bob and Betty are married with three children. Bob has a $250,000 IRA with Betty named as his primary beneficiary and their three children named as contingent beneficiaries.

Bob dies, and the IRA goes to Betty. Betty completes a spousal rollover and transfers the IRA into her name as her own account. Betty survives Bob by several years, and when Betty passes away; the IRA value has grown to $300,000. So, each of their three children will inherit $100,000.

Bob, Jr., also known as Bobby, is the oldest child. He was always the star student growing up, graduated from college and medical school, has a good job and is good with money. Bob and Betty had felt confident in Bobby's ability to handle an inheritance.

But Bobby's career as a doctor puts him at risk of being sued for medical malpractice which could wipe out the inherited retirement account. Plus, Bobby's wife, Sheila, is high maintenance, so who knows if their marriage will make it in the long run or if they'll wind up in divorce court someday splitting everything or if Bobby will feel pressured to use the IRA to support Sheila's lavish desires.

Then there's Bob and Betty's second child, Jane. Jane is a good person with a huge heart. She's done well overall and has a decent job, so Bob and Betty give Jane her one-third of the IRA directly. But Jane's big heart makes her susceptible. Every time a friend is in a pinch—no problem! Jane's the one to help—including bailing out past

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boyfriends. There's a good chance she's going to liquidate and give away a large portion of the IRA within a year—and then when next April comes around, she'll get hit with a huge tax bill that takes away the rest.

And then there's the youngest, Jim. Jim has just never really found his way or managed to get on his own feet. Maybe he's on drugs or alcohol or has mental health concerns. Or perhaps, he just has a big case of "failure to launch" syndrome. Either way, Bob and Betty figured that if they were giving Bobby and Jane their shares outright, then they had to do the same for Jim.

Needless to say, each of them has their own looming disasters lying in wait. This is what we call the 'cross your fingers' approach.

The Smart Approach

What if rather than naming the three children as contingent beneficiaries directly, Bob and Betty had set up an IRA Protection Trust? Betty would still be the primary beneficiary of the IRA upon Bob's death. She would still be able to complete the spousal rollover and take the account as her own. But upon Betty's death, the IRA doesn't just go in thirds to the children outright. Instead, it flows through the IRA Protection Trust.

The IRA Protection Trust provides that each of the children's shares will be held as a Lifetime Protection Trust:

Bobby is his own trustee of his Lifetime Protection Trust created under the IRA Protection Trust. This gives Bobby full power to decide how the funds are invested and managed, but at the same time, the funds are protected if Bobby goes through a potential divorce or gets sued. In fact, if there is a pending divorce or lawsuit, the IRA Protection Trust allows Bobby to appoint a Trust Protector—an independent, unrelated third-party such as a close friend or an attorney or accountant temporarily. The Trust Protector has the power to "lock down" the trust so that no one can force distributions from the trust while the divorce or lawsuit is pending. Once the divorce or lawsuit is over, the Trust Protector transfers the trust back over to Bobby.

Jane is also her own trustee of her Lifetime Protection Trust, but she has the option to name a co-Trustee. Jane knows she has a hard time saying "no," so when her friends or boyfriend ask her for money, she can just tell them that she has to run it by her co-Trustee before a distribution can be made. Once they hear this, they back off. In reality, Jane is involved in managing the trust and deciding who her co-Trustee will be, so she effectively has full control of the trust, but it gives her a nice scapegoat when she needs it.

Now for Jim, it might be wise for Bob and Betty to *require* a co-Trustee. They may even want to specify who that co-Trustee is or at least limit who can be appointed as co-Trustee—such as limit it to a family member or a professional so that Jim cannot appoint a friend who will agree to Jim's demands. You might even be wondering why Jim should be allowed to be a co-Trustee, but hopefully, this might begin to help him

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gain more financial wisdom and responsibility. The Lifetime Asset Protection Trust protects the Inherited IRA if Jim should wind up in personal bankruptcy. The trust can also prohibit Jim from serving as a co-Trustee if he has a drug or alcohol-related relapse.

Now let's look at some numbers. Let's assume an annual rate of growth of 6%. Let's assume that when Betty passes away, Bobby is 50 years old, Jane is 45 years old, and Jim is 40 years old. Each of their respective shares of the IRA Protection Trust starts out worth $100,000 upon Betty's death. We'll assume that each child has an estimated life expectancy of 85 years.

Bobby lives to be 84, and over his lifetime he receives total accumulated distributions of $333,759 with no funds remaining in his share at his death. Jane lives to be 83, and over her lifetime she receives total accumulated distributions of $398,879 with no funds remaining in her share at her death. Jim lives to be 78, and over his lifetime he receives total accumulated distributions of $345,738 and the account still has a remaining balance of $115,514 at the time of his death.

In summary, an IRA that started out at $300,000 ended up being worth almost $1.2 Million.

"Supercharge" Your IRA Planning

So now that you've seen how powerful your IRAs can be, let's look at a couple of extra tricks to "supercharge" your IRAs:

Using Your IRA for Long-Term Care Protection

The U.S. Government has reported that 70% of individuals age 65 or older will require some form of long-term care during their lifetime, and 20% will need care for five years or longer. This could include in-home care, assisted living, or nursing home care. The cost of long-term care continues to grow and can run as high as $7,000-12,000 per month for around-the-clock care.

In the Pension Protection Act of 2006, Congress acknowledged the increasing cost of care and began offering some tax incentives for people to manage their own long-term care planning through different insurance and financial options.

For example, there are life insurance policies that include long-term care riders that allow you to use the death benefit during your lifetime to pay for long-term care and then whatever is remaining still passes to your beneficiaries as a death benefit. Some can even be structured so that they can be paid for by your IRA.

Some annuities also include long-term care riders. The annuity can be owned by your IRA so it is not a taxable event to set up the annuity and the annuity has a special rider that helps pay for long-term care expenses. Under the Pension Protect Act, if you

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withdraw from the annuity to pay for long-term care expenses, the funds come out of the IRA/annuity income-tax free.

By using a portion of your IRA to protect against soaring long-term care expenses, this can protect the rest of your IRA from being depleted so that the future tax-free growth can be leveraged via your IRA Protection Trust.

Using Distributions to Purchase Life Insurance

While many people try to wait until age 70 ½ to begin taking distributions from their IRA when they must start taking their Required Minimum Distributions, you may want to consider some small distributions, depending upon your income tax bracket. If you're in good health and can qualify for a life insurance policy, then you could take small distributions (calculate how much you can take while remaining in a lower tax bracket) and use the distributions to pay the annual premiums on a life insurance policy. The death benefit on a life insurance policy passes to your beneficiaries income-tax free. This is a great way to use a portion of the taxable IRA money and leverage it into a tax-free life insurance policy. Especially, if you don't need your Required Minimum Distributions, think of this as taking lemons (RMDs) and making lemonade (tax-free death benefit for your beneficiaries).

Roth Conversions

Similar to the above, this is another strategy that involves intentionally paying income taxes for a greater long-term benefit to your family. Most clients that we see implement this strategy, do so gradually. Each year, they systematically convert a portion of their pre-tax IRA to a post-tax Roth IRA. They pay the income taxes on the conversion, but the idea being that if the client is in retirement, they may actually be in a lower income tax bracket than their children. They choose to go ahead and pay the income taxes and convert the remaining funds to a post-tax Roth IRA. They will then pass the Roth IRA (and any remaining traditional IRAs) to their family through their IRA Protection Trust. The Roth IRA then can continue to maximize the benefits of tax-free growth for the beneficiaries.

Naming Younger Beneficiaries as Beneficiaries

If you have grandchildren or younger beneficiaries that you'd like to include in your estate plan, then you may wish to consider including the grandchildren as beneficiaries of your IRA Protection Trust. Remember, the younger the beneficiary—the more powerful the potential for lifetime tax-deferred growth in the IRA. Remember our chart from earlier? A $200,000 IRA passing to a 55-year-old beneficiary is worth $579,785 over the lifetime of the beneficiary, whereas the same account could be worth $4,496,506 over the lifetime of a 5-year-old beneficiary.

Perhaps, you leave some or all of your IRA assets to your younger beneficiaries and leave your other assets (such as the life insurance policy discussed above) to your

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children or adult beneficiaries. This will allow your assets to grow and be of significant benefit to your family for generations to come.

At Carolina Family Estate Planning, we are dedicated to helping you create a comprehensive estate and retirement plan that works for you and your family. As you've learned through this guide, a properly titled IRA Trust can protect you and your loved ones from creditors, lawsuits, divorce, and many other unforeseen circumstances that may happen along the way.

It’s important to know that not all trusts are created equal. And unfortunately, many individuals make the mistake of using basic cookie-cutter trusts which are often not structured correctly and offer no financial protection to you and your family for the long haul. At CFEP, we have a different approach. Our approach is designed to help people just like you understand how to protect your IRA and other assets, while also protecting the ones you love most.

Whether you’re looking for ways to provide long-term care for your spouse, financial stability for your children or leave a long-lasting legacy for your grandchildren – we can help you craft a plan that works best for you and your family.

Are you ready to ‘Supercharge your IRA’ and discover how to maximize your assets? Call our office at 919-694-4714 or email us at info@carolinafep.com to get started.

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About Jackie

Jackie Bedard's estate planning practice, Carolina Family Estate Planning, is focused on guiding clients through the complicated, often confusing, maze of balancing family protection, wealth preservation, and cherished family values in the planning process.

Jackie determined early in her career that traditional estate planning, which typically only focuses on financial wealth, is far too limited and short-sighted. She believes estate planning should not just be about passing on financial wealth, but also should include preserving intellectual, spiritual, and human wealth—who you are and what's important to you.

Jackie is a member of WealthCounsel, ElderCounsel, the North Carolina Bar Association, and the Wake County Bar Association. She has served as a board of director member of the North Carolina chapter of the National Academy of Elder Law Attorneys and on the board of directors of Guiding Lights Caregiver Support Center.

Jackie was named by Cary Magazine as a 2015 Mover & Shaker for her contributions to the community. In October, 2015, she received a Superb 10.0 rating by Avvo, a legal rating system.

In 2017, Jackie was awarded Best Attorney in Cary Magazine's Maggy Award competition. Each year, Cary Magazine awards the Maggy Awards to area residents' favorite service heroes in Western Wake County, based on a tally of more than 11,000 votes.

Jackie earned her Bachelor's of Science degree in Economics at MIT and graduated law school magna cum laude in the top 7% of her class at the University of Richmond School of Law.

Jackie resides in Cary with her husband, Dan, and their two dogs, Nala and Nelly. Jackie also enjoys CrossFit, running, reading, hiking, cycling, music, and more.

To learn more about Jackie and to receive useful advice and information, please visit our website at **www.CarolinaFEP.com**

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