

Estate planning fundamentals for beneficiary designations

Gregg Keele, CFP® ,CRPC®

Financial Advisor

January 15, 2013

Brokerage, investment and financial advisory services are made available through Ameriprise Financial Services, Inc. Member FINRA and SIPC. Some products and services may not be available in all jurisdictions or to all clients.

© 2009-2011 Ameriprise Financial, Inc. All rights reserved. (4/11)



Agenda

- > **Introduction**
- > **Beneficiary planning solutions**
- > **Benefits for individuals and**
- > **Benefits for your practice**
- > **Next steps**

Introduction

- > Beneficiary designations are key to wealth transfer and typically outweigh other elections (i.e. will)
- > Unique situations call for unique solutions
- > Many don't understand that beneficiary designations supersede the will
- > In the absence of a verifiable beneficiary designation, the default language in the plan document (for qualified plans) or custodial agreement/contract (for IRAs) applies

Introduction

IRA Market: It's Where the Money Is

- > IRA market 2010: \$4.58 trillion¹
- > Rollovers in 2010: estimated 319.4 billion¹
- > Households with retirement plans: 70 percent²

¹ Cerulli Associates. Cerulli Quantitative Updated Retirement Markets 2010
³Ici Research Fundamentals Dec 2010 Vol. 19, No.8

Introduction

Wealth Transfer: No “one-size-fits-all” scenarios

- > Do all IRA account holders share the same wealth transfer objectives?
- > Clearly, the answer is “no.”

Introduction

Wealth Transfer: No “one-size-fits-all” scenarios

- > Facilitate a lifetime financial legacy for heirs, with complete beneficiary flexibility regarding payout of assets
- > Implement a desire for beneficial control in a simplified way
- > Look to professionals for support during a difficult decision-making process

Introduction

Wealth Transfer: Unique Relationship Situations

Beneficiary challenges and concerns come in many forms

- > Beneficiaries who have limited financial experience
- > Fiscally irresponsible beneficiaries
- > Beneficiaries from a previous marriage
- > Special needs beneficiaries
- > Minor beneficiaries

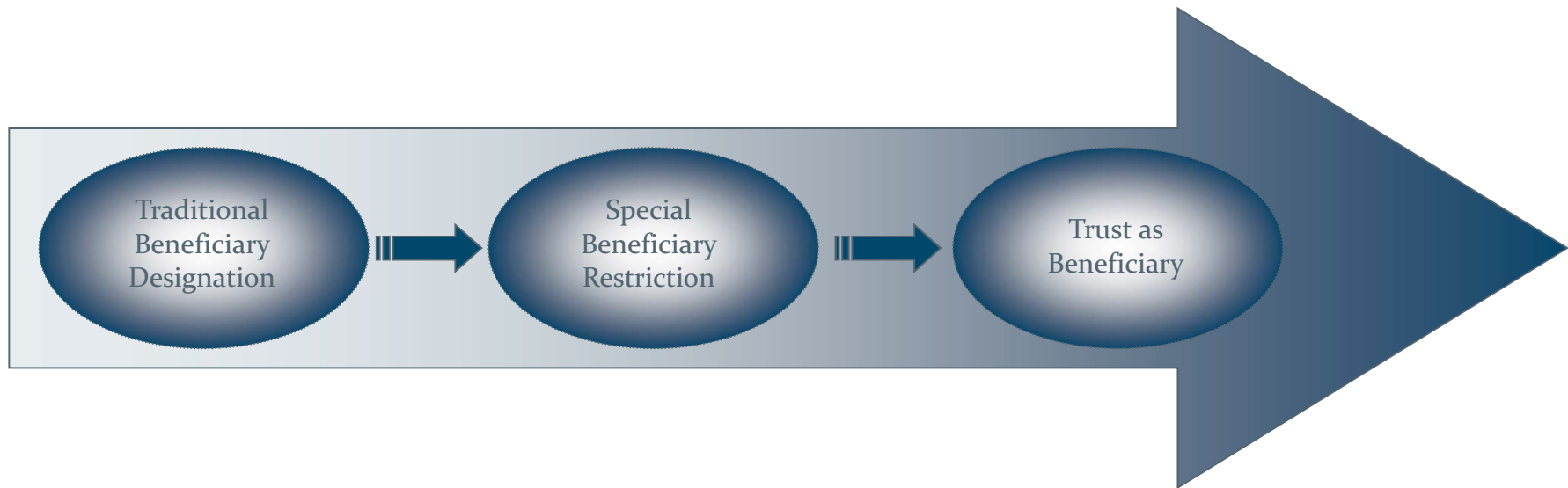
IRA owners' legacy goals can be quite varied

- > Lifetime income for beneficiaries
- > Educational needs or incentives
- > Home purchase
- > Emergency relief
- > Delayed gratification/beneficiary maturity

Introduction

Wealth Transfer: Unique Relationship Situations

- > Wealth transfer objectives are varied.
- > Consider an array of IRA beneficiary designation strategies.



Ameriprise Financial Solutions

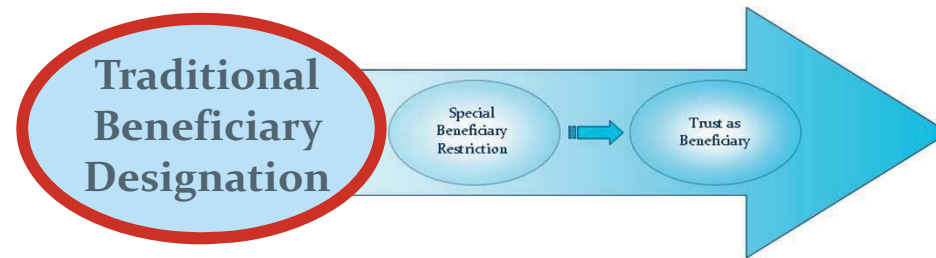
Option #1: Traditional beneficiary designation

Option #2: Special Beneficiary Restriction

Option #3: Trust as beneficiary

Ameriprise Financial Solutions

Option #1: Traditional Beneficiary Designation



Affords maximum discretion to beneficiary

Distribution parameters dictated solely by

- > Federal tax law (RMD rules)
- > IRA plan agreement

Beneficiary options may include

- > Five-year rule
- > Life expectancy distributions (i.e., “stretch IRA”)
- > Accelerated distributions (e.g., lump sum)
- > Spouse beneficiary can roll to their own IRA

Ameriprise Financial Solutions

Option #1: Traditional Beneficiary Designation (presuming no spousal rollover)



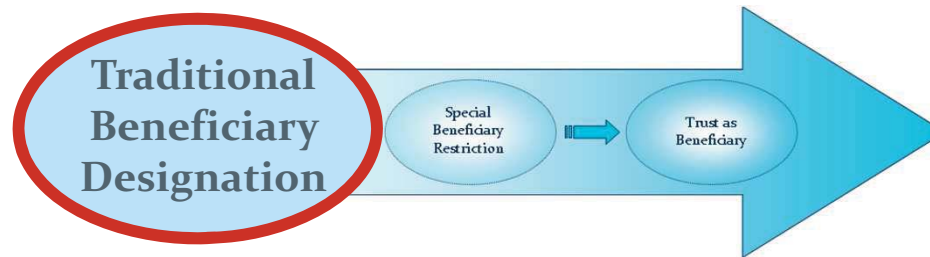
1. IRA owner completes designation – decides WHO will get the assets at death
2. IRA placed into “inherited status” (beneficial IRA) after death for each primary beneficiary*
3. Each beneficiary decides WHEN** & HOW to get the money from the inherited IRA

* Each primary beneficiary signs application as “beneficial owner” and provides tax ID #

** 1st RMD to be paid by 12/31 of the year following the year of death if a life expectancy payout is elected

Ameriprise Financial Solutions

Option #1: Traditional Beneficiary Designation



- > Dana's financial legacy objective: Lifetime financial security for son, Brian
- > IRA balance at death: \$500,000
- > Brian's age when RMDs begin: 20

Best-case scenario

Brian elects to take distributions over his life expectancy (63 years)

Lifetime income (after tax):

\$6,367,852*

Worst-case scenario

Brian takes (and spends) immediate lump sum distribution

Lump sum spent (after tax):

\$343,161*

Assumptions: Brian's current taxable income (not including IRA distributions) is \$30,000, IRA investments earn a 7% annual rate of return, lump sum distribution taxes calculated based on 2011 federal tax rates for individual filers, life expectancy distributions assumed taxed at 25%.

All characters are fictional. This hypothetical example is provided for illustrative purposes only. This illustration does not take into consideration the impact of inflation, any additional expenses or estate taxes; this illustration assumes that there is not change in the current tax laws.

Ameriprise Financial Solutions

Option #2: Special Beneficiary Restriction



- > Available for non-spouse beneficiaries
- > Distribution restriction parameters set by original IRA owner, not beneficiary
- > Restriction parameters selected from pre-determined options
- > Restriction parameters may vary by beneficiary

May be especially appropriate for

- > Young beneficiaries
- > Financially irresponsible beneficiaries
- > Situations in which IRA assets constitute a major component of client's overall financial legacy

Ameriprise Financial Solutions

Option #2: Special Beneficiary Restriction



- > Basic distribution restriction is the beneficiary's required minimum distribution
- > Individually-defined duration options
 - Until age 50
 - Until beneficiary reaches predetermined age younger than age 50
- > Restriction is removed if the IRA account balance drops below \$10,000
- > Special Beneficiary Restriction fee – \$165

Ameriprise Financial Solutions

Option #2: Special Beneficiary Restriction (Non-spousal beneficiaries ONLY)



1. IRA owner completes designation – decides WHO will get the assets at death; HOW the money is to be paid out and WHEN a restriction will be lifted
2. IRA placed into “inherited status” (beneficial IRA) after death with a special beneficiary restriction for each primary beneficiary*
3. Each beneficiary is restricted to receiving only the RMD** until that restriction is lifted as per the SBR designation form

* Each primary beneficiary signs application as “beneficial owner” and provides tax ID#

** 1st RMD to be paid by 12/31 of the year following the year of death

Ameriprise Financial Solutions

Option #2: Special Beneficiary Restriction



Option only available for the brokerage platform (Brokerage and Managed Accounts) Annuities are not eligible for SBR

Restriction lifted as specified by IRA owner

- > Upon the beneficiary attaining age 50
- > Upon earlier age as specified by IRA owner
- > Upon the IRA balance reduced to \$10,000 or less

CAUTION: No access to assets for emergency purposes
Beneficiary payments are sent out upon request by the beneficiary (not automatically)

Ameriprise Financial Solutions

Option #2: Special Beneficiary Restriction



Remember Dana and Brian?

- > This type of stretch IRA can be managed using a special beneficiary restriction
- > Risk of beneficiary accelerating payments is eliminated

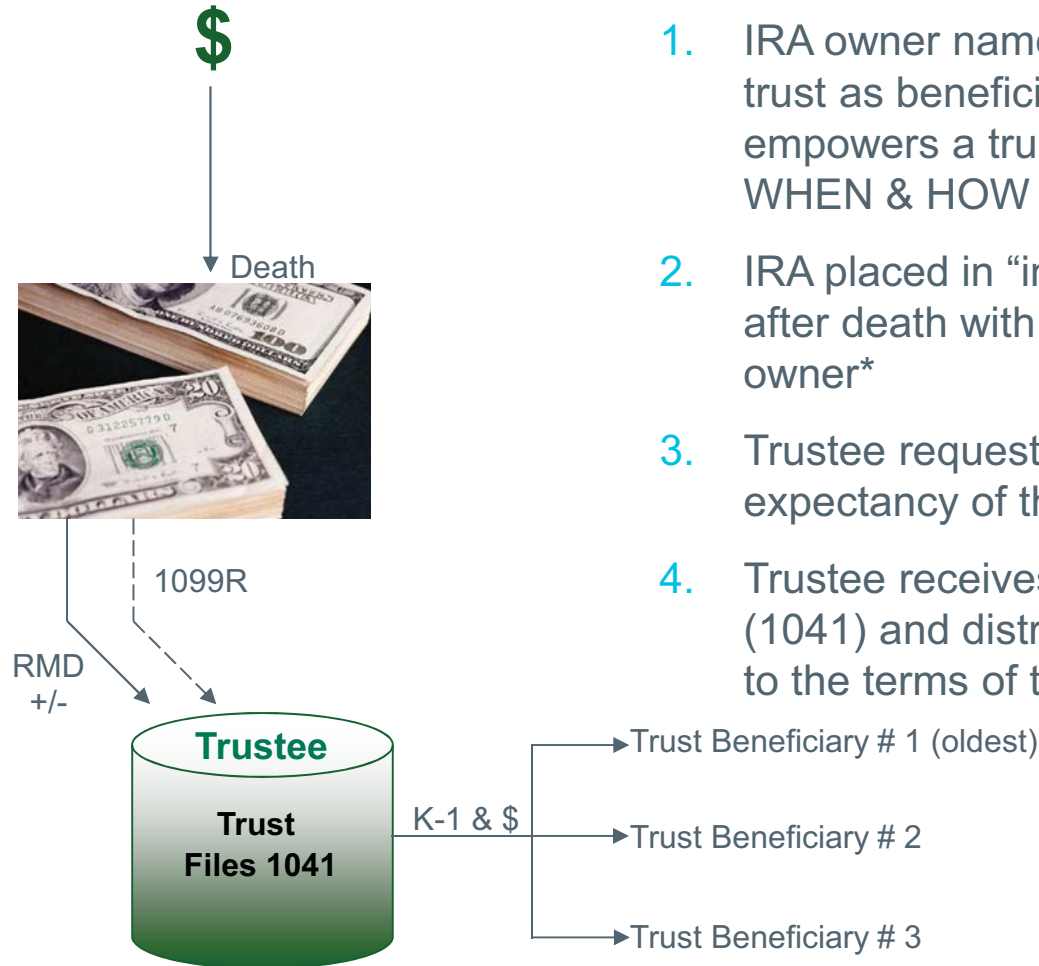
<u>Best-case scenario</u>	<u>Special Beneficiary Restriction</u>	<u>Worst-case scenario</u>
Brian elects to take distributions over his life expectancy (63 years)	Brian is restricted to taking distributions over his life expectancy until age 50 at which time he takes a lump sum distribution	Brian takes (and spends) immediate lump sum distribution
Lifetime income (after tax): \$6,367,852 *	Income to age 50 (after tax): \$650,108* Lump sum at age 50 (after tax): \$1,362,751* Total of income plus lump sum (after tax): \$ 2,012,859*	Lump Sum spent (after tax): \$341,943*

Assumptions: Brian's current taxable income (not including IRA distributions) is \$30,000, IRA investments earn a 7% annual rate of return, lump sum distribution taxes calculated based on 2011 federal tax rates for individual filers. Life expectancy distributions assumed taxed at 25%.

This hypothetical example is provided for illustrative purposes only. This illustration does not take into consideration the impact of inflation, any additional expenses or estate taxes; this illustration assumes that there is not change in the current tax laws.

Ameriprise Financial Solutions

Option #3: Trust as Beneficiary



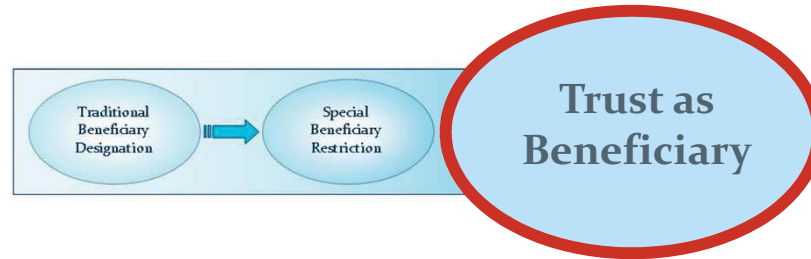
1. IRA owner names his/her qualifying “look-through” trust as beneficiary of IRA assets. The owner empowers a trustee to decide WHO gets money WHEN & HOW
2. IRA placed in “inherited status” (beneficial IRA) after death with the trust named as new beneficial owner*
3. Trustee requests RMD or more based on life expectancy of the oldest trust beneficiary
4. Trustee receives a 1099-R, files a trust tax return (1041) and distributes income and K-1 according to the terms of the trust

* Trustee signs new application as “beneficial owner” and provides the trusts tax ID #

** 1st RMD to be paid by 12/31 of the year following the year of death

Ameriprise Financial Solutions

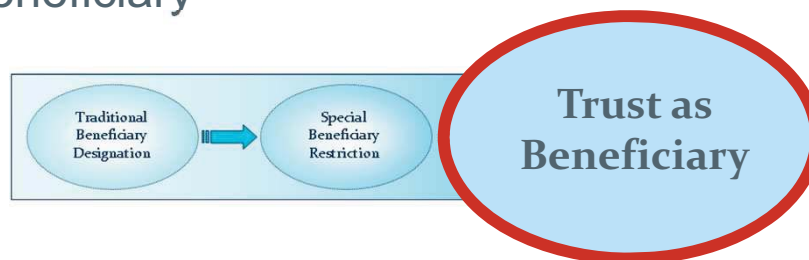
Option #3: Trust as Beneficiary



- > Ameriprise Bank, FSB as a discretionary trustee
- > Parameters of trustee discretion dictated by trust agreement
- > Broad flexibility for IRA owners whose legacy objectives cannot be sufficiently met through a special beneficiary restriction

Ameriprise Financial Solutions

Option #3: Trust as Beneficiary



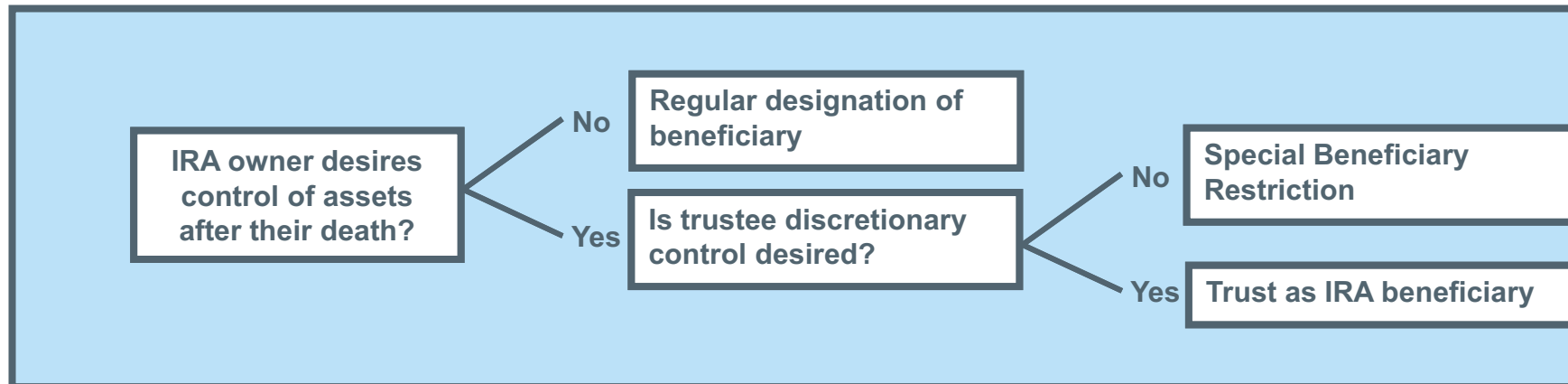
Trust as IRA beneficiary solution can be especially appropriate for:

- > Extremely large IRA balances
- > Significant assets outside of IRA
- > Special needs beneficiaries
- > IRA account owners who desire more elaborate restrictions (e.g., assets available for education expenses provided beneficiary maintains a minimum GPA)
- > Situations requiring discretionary oversight (e.g., has Johnny *really* suffered an unavoidable financial hardship?)

Cost for trust as beneficiary of IRA

Ameriprise Financial Solutions

Summary



Benefits for IRA Account Owners

Leave a Financial Legacy

- > Provides IRA owners with level of control desired
- > Positions IRA to maximize financial legacy
- > Balances advantages of “stretch IRA” strategy with ability to accommodate contingencies
- > Allows IRA owner to provide varying levels of flexible access depending on each beneficiary’s experience/ability

Client Benefits

Easily Implement Basic or Flexible Beneficiary Structure

Simple

- > Easy to understand
- > Easy to implement

Flexible

- > Full spectrum of options
- > Beneficiary-specific restrictions
- > Maximum flexibility for IRA owner

Cost effective

- > Avoids undue cost/complexity
- > Individual pays only for level of control desired

Thank you for attending today's
seminar.