

**THE 7 MOST COMMON MISTAKES  
PEOPLE MAKE WITH THEIR IRAs...**  
*and how they may cost you*

# THE 7 MOST COMMON MISTAKES PEOPLE MAKE WITH THEIR IRAs...

*and how they may cost you*

1. Paying unnecessary or accelerated Federal and State estate taxes, income taxes and probate fees and expenses.
2. Losing ability to stretch tax advantages over extra decades
3. Keeping outdated beneficiaries
4. Losing \$2 million estate tax exclusion
5. Leaving retirement plan assets with company after retirement
6. Having IRA funds in assets not matching retirement needs
7. Missing a tax-free charitable contribution from your Traditional IRA or Roth IRA in 2007

Attend our "Must-Know" IRA educational seminar and find how to AVOID these common mistakes.

Sponsored by \_\_\_\_\_

At \_\_\_\_\_ on \_\_\_\_\_ from 10:00 am to 11:00 am

Call \_\_\_\_\_ to reserve limited seating

Complimentary copy of Answers to most frequently asked questions about IRAs.

(When IRA is referred to, it will include 403(b), 401(k), Keogh, self directed IRAs, 457's and SIMPLE IRAs unless noted otherwise)

# THE 7 MOST COMMON MISTAKES PEOPLE MAKE WITH THEIR IRAs...

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## **MISTAKE 1**

Many clients incur additional income taxes and probate fees when they have not named a designated beneficiary. When an estate is named or becomes the default beneficiary due to the master IRA agreement, the IRA then passes through probate creating delays and fees. Caution: Depending on the size of your estate the combination of Federal and State estate taxes and income taxes could add up to 80% plus of the total IRA value.<sup>1</sup>

### **Here is how to AVOID!!**

Just name a designated beneficiary – defined as a living person – or a trust that meets the qualifications to be a designated beneficiary.

<sup>1</sup> Source: IRS estate and income tax tables plus state income tax tables.

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## **MISTAKE 2**

Losing ability to extend IRA required minimum distribution payments and potential tax deferrals over a designated beneficiary's life expectancy by failing to name designated beneficiaries and contingent beneficiaries.

### **Here is how to AVOID!!**

Name living children and grandchildren as beneficiaries and contingent beneficiaries to continue future tax deferrals by receipt of RMD payments after the IRA owner's death. A trust or guardianship will be required for payment to a minor beneficiary.

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## **MISTAKE 3**

Keeping outdated beneficiaries.....people who have died....or whom you currently don't want to be designated as recipients of IRA assets such as an ex-spouse.

### **Here is how to AVOID!!**

Set up an interview with your financial professional. He/she will help you update your IRA with living designated beneficiaries that you currently desire.

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## **MISTAKE 4**

Losing a \$2 million estate tax exclusion

This means additional taxes and fees may be applied to estate assets<sup>1</sup>

There are two estate tax exclusions plus a marital deduction available to all married clients:

Unlimited marital estate tax deduction

Two \$2 million estate tax exclusions

In the usual case, everything is left to the surviving spouse who will still have a \$2 million exclusion to use when he/she dies.

The second \$2 million exclusion is not used and, therefore, lost

### **Here is how to AVOID!!**

Review with your financial and legal professionals whether you should leave your IRA, up to the \$2 million estate tax exclusion, to a child with the remainder of the estate to spouse; thus, no exclusion is lost.

<sup>1</sup> Estate planning issues can be complex and will depend on the size of the estate, the assets in the estate and individual planning needs. You should consult your estate planning lawyer to discuss how your retirement assets fit into your estate plan.

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## **MISTAKE 5**

Leaving retirement plan assets with a former company after changing jobs or retiring.

Often times, these assets (such as company stock) may NOT be the best matches for retirement income and can result in the loss of extending IRA tax advantages.

### **Here is how to AVOID!!**

All it takes to solve this mismatch is to complete a tax-free rollover of company plan assets into an IRA which may allow proper matching of assets with retirement needs and provide you with greater control of and benefits from your assets.

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## **MISTAKE 6**

Having IRA assets which do NOT match your retirement needs due to lack of attention or poor advice.

### **Here is how to AVOID!!**

There are many highly rated financial and insurance companies specializing solely in providing retirement income.

These products provide guaranteed<sup>1</sup> income for life while also offering additional benefits to enhance retirement strategies.

Some of these additional benefits may include:

- Allowing access to monies for emergencies.
- Returning remaining principal at premature death
- Increasing income when disabled
- Adjusting income up by indexing to financial indices

Your financial professional will assist you in matching financial, insurance, and annuity products with your retirement needs.

<sup>1</sup> Any guarantee is subject to the claims paying ability of the issuing company.

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## **MISTAKE 7**

Missing a tax-free charitable contribution from your Traditional IRA or Roth IRA in 2007

### **Here is how to AVOID!!**

Make an IRA direct donation of up to \$100,000 to your favorite charity. The amount...

- is not included in your taxable income,
- does not affect taxation of your Social Security benefits,
- does not reduce the benefit of your itemized deductions,
- does not increase your tax base for alternative minimum tax purposes,
- is not subject to normal charitable deduction limitation of 50% of your adjusted gross income, and
- may satisfy your required minimum distribution.

## Most frequently asked questions about IRAs

### *Should I designate a trust as a beneficiary for my IRAs?*

No tax benefit can be gained with naming a trust (which qualifies as a designated beneficiary) that cannot be gained without one. The only reason to name a trust as a beneficiary for your IRA would be for personal reasons, such as that the beneficiary is a spendthrift, disabled, etc.

### *What is RBD?*

RBD is an IRS reference to the Required Beginning Date for distributions to begin. The date is April 1 following the year you turn 70 ½. After the first year, distributions must be taken by December 31 of each year.

Don't miss this date. The IRS penalty is 50% of the distribution (RMD) you were required to take.

### *What is RMD?*

RMD is an IRS reference to the Required Minimum Distribution. You always can withdraw more. If you are funding your IRA with an annuity and the contract has not been annuitized, the RMD amount is determined by dividing the "entire interest" under the annuity by the appropriate life expectancy table. The "entire interest" is a calculation of the dollars credited under the contract and the actuarial present value of additional contract benefits; the company issuing the annuity will provide this information to you.

Consult your financial professional. He/she will assist you in obtaining your correct RMD, particularly if you have an annuity contract that has not been annuitized.

## Most frequently asked questions about IRAs

*What are the main differences between a Roth IRA and a Traditional IRA?*

Contributions to a Traditional IRA may be tax deductible while they are not to a Roth IRA. Distributions from a Traditional IRA are required upon attaining age 70 ½ and are taxable as ordinary income. Distributions from a Roth IRA are not required during the owner's lifetime, and "qualified distributions" are income tax free.

*Which IRA is best for me?*

After considering age and income limits, current tax status and other financial factors, your financial professional can recommend the best IRA for you.

*What is an IRA Rollover?*

An IRA rollover is a tax-free transfer of funds from a qualified retirement plan such as a 401(k) plan to a Traditional IRA. IRA rollovers can also be a tax-free transfer of funds from one Traditional IRA to another Traditional IRA.

## Most frequently asked questions about IRAs

*What are the limits on an IRA charitable contribution from your Traditional or Roth IRA?*

Maximum donation is \$100,000 per taxpayer in 2007.

Donations must be made directly by the financial institution holding your IRA to your charity

Donations can be made only to qualifying public charities, not to your own private foundations and not to a donor advised fund

IRA Owners must be 70 ½ and over

No IRA direct donations are allowed to charitable remainder trusts, charitable lead trusts, charitable gift annuities or pooled income funds.

Does NOT apply to SEPs and SIMPLE IRAs and does NOT apply to distributions from any company plans.

## What do I do next?

Schedule a personal and confidential interview with your financial IRA professional.

Financial professionals may help save you money and help you determine whether your IRA is current by:

- Verifying your beneficiaries are as you currently desire
- Verifying your beneficiary selections meet IRS guidelines so that your taxes and fees are minimized
- Reviewing the sufficiency of your IRA income
- Guaranteeing your income for life
- Guaranteeing access to extra money when you need it
- Verifying your required minimum distribution and required beginning date
- Verifying that your IRA legacy can be passed down to future generations.

I would prefer my complimentary 30 minute confidential IRA review to be set up:

Place  In my home      Time \_\_\_\_\_

In your office      Time \_\_\_\_\_

My name is \_\_\_\_\_

My telephone number is \_\_\_\_\_

***I understand that a financial professional will contact me for my IRA review and that I am under no obligation to take any action recommended.***

***For tax or legal advice, I understand that I need to consult my accountant or lawyer.***