IRA Opportunities You Don’t Want to Miss
Part II of II

Here’s one of the few riddles I remember from the 2nd grade: If April showers bring May flowers, what do May flowers bring? Answer at the end (or ask a 2nd-grader). April’s article also brought you ideas to help recoup some of your retirement account losses by taking advantage of Roth IRA conversions. As promised, I have a few more IRA-related planning tips for this month, starting with Required Minimum Distributions.

RMDs

When it comes to IRA flavors, by far the most common is the plain-vanilla traditional (“deductible”) IRA. If you have a traditional IRA, you must begin taking Required Minimum Distributions, or “RMDs”, from your IRA no later than April 1 of the year *following* the year you turn 70-½. The amount of your RMD is calculated annually based upon your remaining life expectancy. You can always take *more* than the RMD, but you must take at least the minimum.

The Worker, Retiree, and Employer Recovery Act of 2008 (WRERA), signed into law last December, provides for the suspension of RMDs for the year 2009. This is good news for those who are taking only the minimum to avoid being penalized by Uncle Sam. Both IRA owners and IRA beneficiaries fall under this temporary rule and can elect to forego taking their 2009 distributions. IRA owners who have not had a rollover in the past 12 months and have taken distributions this year have the option to roll these funds back within 60 days of receiving them.

Note that if you turned age 70-½ in 2008 but decided not to begin taking your RMDs until 2009, you cannot elect to skip these payments since they were technically due to be paid out in 2008. In case you’re wondering, this provision of WRERA was intended to help those in need. It appears, however, that it actually benefits those who are *not* in need (of their IRA distributions) – go figure.

The Importance of Beneficiaries

In 2002, the IRS greatly simplified the RMD rules including the distribution rules available for beneficiaries after the owner’s death. IRAs that allow the beneficiary to name a beneficiary from a later generation are often called “stretch” IRAs because they can be stretched out over many years. Stretch IRAs are very useful for those who wish to pass IRA funds to their heirs and defer taxation on them for as long as possible. It is extremely important to note, however, that the IRA plan documents are not *required* to provide these options. The plan document will determine the time available for distributing the funds, so it is critical that you know what it says.

If you name the beneficiaries of your IRA in your will, that overrides the document you signed when you set up your account, doesn’t it? Unfortunately, this is one of those instances where the will does *not* rule. Whoever you name in your IRA as your beneficiary is who it will be, even if you have, for example, divorced that beneficiary many years ago. Things change, children are born, divorces happen, relatives die. If you don’t update your beneficiaries when you update your will, your heirs may have some unpleasant surprises after your death.

What if you do not name beneficiaries and your plan documents refer to your will? According to a Private Letter Ruling (“PLR”) from the IRS, if your beneficiaries are not “identifiable”, then your estate is your beneficiary. This means that your entire IRA must be fully distributed in five years or less, with no benefit of “stretching” out the IRA over a longer period. So – do yourself a favor: get a copy of the paperwork and read for yourself who your beneficiaries are.

The Importance of Custodians

While the IRS’s rules for “stretch” IRAs are fairly liberal, they won’t do you any good if your account is being held by a custodian that is not as lenient as the IRS. That’s right – many banks

and mutual fund companies don't allow beneficiaries to stretch retirement account distributions over their life expectancies. In other words, you should make certain your custodian has terms *at least* as lenient as what the IRS allows for RMDs because when it comes to retirement accounts, you must follow whoever has the stricter rules.

What do you do? It's simple – call your custodian and ask if their beneficiary distribution guidelines comply with IRS provisions for inherited IRAs. If the answer is "yes", get it in writing and have it reviewed by a financial planner who knows what you want. If the answer is "What's that?" or "No", I recommend you shop for a new retirement account custodian.

I've covered a lot of ground in this brief article and have only summarized a lot of important information. Please consult with a qualified Certified Financial Planner® to find out how these provisions apply to you and your retirement plans.

And in case you're still wondering, May flowers bring "Pilgrims!"