

Your Retirement Is a Ticking Tax Bomb



Many people do not understand the complex tax issues associated with IRA and Retirement plan distribution, yet understanding these issues could lead to great benefits. In 2002, the IRS Finalized new regulations for required distributions of IRAs. Under the old rules, children and grandchildren who inherited an IRA were forced to pay the income taxes within one to five years, depending on the age of the IRA owner at death. Under the new distribution rules, the same beneficiaries can spread the distributions and taxes over their individual life expectancies.

According to pages 38 and 86 of the 2006 IRS Publication 590, a beneficiary age zero, who inherits a traditional IRA, can spread the distributions for as long as 82.4 years. Spreading out or "Stretching" the distributions allows the beneficiaries to continue earning interest on money that, under the old rules, would have been paid prematurely to the IRS. A \$300,000 IRA at 5% can pay out in distributions as much or more than \$1.5 million over three generations, if the IRA is properly structured. These new distribution rules gave birth to the "Stretch/Multi-generational IRA." Unfortunately, many IRA owners aren't taking advantage of the new tax laws, and many advisors are not up to speed on the new distribution rules. The bottom line is that most IRAs are broken.

Here are 8 simple mistakes to look for.

1. You have no formal distribution plan.

2. You are not taking advantage of the "Separate Account Rule"
3. You have improper or no designated beneficiaries.
4. Your current advisor is not an IRA distribution Specialist.
5. Your money is still in a 401(k), 403b, Simple IRA or a 457 Plan
6. You are using a Trust or Will to determine beneficiaries
7. You have too much of your IRA at risk in the market
8. You are still paying fees and loads on your IRAs

Learning all the new distribution rules and the 8 signs that your IRAs or 401(k)'s are broken will help you achieve your retirement income goals.

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