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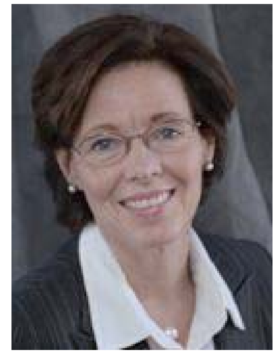
IRA News & Tips



Peg Seabrooke
An Integrated Wealth Advisor Helping Clients Maximize Benefits while Minimizing Taxes

130A Montowese St
Branford, CT 06405
Phone: 203-481-1040
Fax: 203-488-5401
peg@margaretseabrooke.com
www.margaretseabrooke.com

Content

Your IRA Calender

Please make note of the following deadlines:

- **January 31, 2012:** The deadline by which your IRA custodian or plan trustee must mail your 1099-R statement. This is also the deadline by which your IRA custodian must mail your fair market value (FMV) statement, as well as your 2012 required minimum distribution (RMD) statement for your Traditional IRA, SEP IRA and/or SIMPLE IRA, if you are of RMD age.
    - **Form 1099-R** is used to report distributions taken from your retirement accounts during 2011, and recharacterizations between your Traditional and Roth IRAs. If income tax was withheld from your distribution, the amount should also be reported on your Form 1099-R. Please include copies of your 1099-R along with any tax-related documentation that you provide to your tax-preparer.
    - Your **FMV statement** shows the value of your IRA as of December 31, 2011. Your December 31, 2011 FMV is included in the formula used to calculate your RMD for 2012.
    - Your **RMD statement** must be provided by the custodian that held your IRA on December 31 of last year, and must either include your RMD amount for the year, or an offer to calculate your RMD upon receiving a request from you. This requirement does not apply to Inherited IRAs.
- **April 2, 2012:** If you reached age 70½ in 2011, you were required to take an RMD for 2011. If you did not already take this RMD from your IRA, you have until April 2, 2012 to do so. Failure to take this RMD by April 2 will result in you owing the IRS a 50% excess accumulation penalty of the RMD amount not taken by the deadline.
- **April 17, 2012:** Deadline for making contributions to your Roth and Traditional IRAs for 2011. Contributions must be received by your financial institution by this date (if hand delivered) or postmarked by this date (if mailed). The deadline is usually April 15; when April 15 falls on a weekend or public holiday, the deadline is extended to the next business day. ■

$900,000 Awarded to Wrong Beneficiary?
Don't let this happen to you

A few years ago, *The New York Post* published an article about a couple who had been married for almost 20 years. The husband (Bruce) was unintentionally disinherited from his wife's (Anne's) $900,000 retirement account when Anne died suddenly from a heart attack. The couple mistakenly believed that the annual statement from the plan administrator, which indicated that there was "no named beneficiary," was correct. Under the terms of the retirement account, Bruce would be the beneficiary by default if there was no named beneficiary, so the couple felt it was not necessary to submit new beneficiary forms.

The High Cost of Making Assumptions

After Anne died, the plan administrator found a beneficiary form that she had completed before she met Bruce, which named her mother, uncle and sister as her beneficiaries. According to the article, Anne's sister, who, at the time of Anne's death was the only surviving beneficiary of the three named, was determined to be the sole beneficiary by the terms of the account agreement. The matter was referred to the Supreme Court of New York, which upheld the decision of the plan administrator to treat Anne's sister as the beneficiary, because her surviving sister and not Bruce was named as her beneficiary.

What You Can Do

There are several things you can do to prevent something like this from happening to your loved ones. These include, but are not limited to the following:

- **Annual Check of Beneficiary Forms**
  Check your beneficiary records at least once per year, so as to ensure that any needed changes are made in a timely manner. Check them again when there is a life-changing event that could necessitate a change in your beneficiary designation, such as a marriage, divorce, death of a beneficiary, and/or a new child added to your family.
  If you have an old retirement account that you have not checked recently, it is possible that the beneficiary on record is not who you want it to be. Ensure that those accounts are included in your annual check-up process.
- **Divorce Does Not Always Change a Beneficiary**
  Depending on the laws of the state in which you live, a divorce may mean that your spouse is automatically removed as a beneficiary of your retirement account. In other states, your spouse will remain as your beneficiary unless you complete new beneficiary designation forms to name new beneficiaries. Even if you want your former spouse to remain as your beneficiary, we recommend completing a new form to make sure that your intentions are clear.
- **Avoid Ambiguous Words**
  It is common practice to use phrases such as "all my children to be shared equally" on beneficiary forms. However, this can create complications if there are stepchildren, adopted children, and children who an individual might not have known existed. As such, we recommend being specific when naming children or any other party as your beneficiary by identifying them by names and other unique identifiers such as social security numbers.
- **Understand What Your Document Means**
  The language used in the governing agreements for your IRAs and other retirement accounts should be written in a manner that is easily understood by a layperson. However, unless you are familiar with the nuances and caveats that are usually included, it can be easy to overlook or misunderstand the possible results of some provisions. For instance, an agreement could provide that if your beneficiary should die before you, and you fail to name a replacement beneficiary before your death, your beneficiary becomes your estate; or it could provide that your beneficiary becomes your surviving spouse or children.

The end result would not only determine who inherits your retirement account, but could also affect the amount of income and estate taxes paid on the assets, as well as the distribution and estate planning options available to your beneficiaries.

Unless you are an expert at understanding the language used in these agreements, we strongly recommend that you have us review them, so as to ensure that they are consistent with your objectives. If they are not, we can help you to implement practical solutions.

- **Don't Use Your Will to Name Your Beneficiary**
  A common mistake made by many retirement account owners is to update their wills to reflect changes to the beneficiary designations for their retirement accounts. However, this is an ineffective way to make such changes as the beneficiary form on file with the IRA custodian or retirement plan administrator overrides a will. In the event there is no beneficiary form on file, of if your beneficiary predeceases you, then the terms of the governing agreement determines who inherits your retirement account.

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Let Us Help You

Ensuring that the right beneficiary is on record is only one of the many steps you need to take to ensure that your beneficiary designations meet your distribution and estate planning needs. Contact our office to schedule an annual check-up for your retirement account, so that we can help to ensure that these are other important areas are addressed.

Tips for The IRA Season

You have until April 17, 2012 to make your Traditional IRA and/or Roth IRA contributions for 2011. The deadline is usually April 15; however, when April 15 falls on a weekend or public holiday, the deadline is extended to the next business day.

When you send in your IRA contribution, here are some of the steps that you should take in order to ensure your contribution is applied correctly.

1. **Indicate the tax year:** If your intent is to have your IRA contribution applied to the 2011 calendar year, be sure to make note of that when you send in your contribution. Even if you send in a contribution form with a check, write the tax year in the memo box on the check, just in case it gets separated from the form. If that information is not included, your financial institution has the right to apply the amount to 2012 if they receive it on or after January 1, 2012, unless you indicate otherwise.
2. **Indicate the type of account:** This is especially important if you have more than one account with the same financial institution. Failing to note the account number could mean that your contribution is deposited to the wrong account. To help prevent such errors, write the account number in the memo field on your check or other deposit instrument, and also note the type of contribution, for example Roth IRA or Traditional IRA contribution.
3. **Follow Up:** Don't assume that your IRA contribution was processed accurately. Check your statement for the month in which the deposit was made. If any mistakes are detected, notify your financial institution immediately. Be sure to follow up again to ensure that the appropriate adjustments were done accurately.
4. **Don't exceed your limit:** The IRA contribution limit is 100% of the eligible taxable income that you receive during the year or $5,000 ($6,000 if you were at least age 50 by December 31), whichever is less. This means that if you earned only $3,000 for the year, your IRA contribution cannot exceed $3,000. Contributions in excess of the limit are subject to a 6% excise tax for each year the amount remains in your IRA, unless they are corrected by your tax filing deadline (including extensions).
5. **Little or no income? Use your spouse's income:** One of the requirements for eligibility to make an IRA contribution is that you must have eligible compensation for the year. An exception is made for you if you have no eligible compensation, but you are married to someone who does. Under this exception, your IRA contribution can be based on your spouse's income, providing you file a joint tax return and your spouse's income is sufficient to cover your contribution and any contribution that he or she may make for him or herself.
6. **Meet the deadline:** Your 2011 IRA contribution must be delivered to your IRA Custodian by April 17, 2012. If you mail your contributions, the envelope must be postmarked by April 17. For the purposes of the postmark, you must use an IRS approved mailing service. In addition to the United States post office, the following services are approved for this purpose:
   - DHL Express (DHL): DHL Same Day Service, DHL Next Day 10:30 am, DHL Next Day 12:00 pm, DHL Next Day 3:00 pm, and DHL 2nd Day Service;
   - Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2 Day, FedEx International Priority, and FedEx International First; and
   - United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express
7. **File Form 8606 for nondeductible contributions:**

If you make a contribution to your traditional IRA, and do not claim a tax deduction for any portion of the contribution, you must file IRS Form 8606 to let the IRS know that the contribution is nondeductible. Form 8606 helps you and the IRS to keep track of these nondeductible amounts, thus ensuring that they are not subject to income tax when withdrawn from the IRA.

Get in Touch

Contact us for more tips and information about the rules and procedures that apply to your contributions to your Traditional IRA and Roth IRA. ■

Questions and Answers

Q: I received compensation of $50,000 from my employer for 2011. I have not yet made any contributions to my traditional IRA for 2011. Can I make a contribution to my traditional IRA for 2011 now?

A: It depends. You can make a contribution of up to $5,000 ($6,000 if you were at least age 50 by the end of the year) to your traditional IRA providing you were not age 70½ or older as of December 31, 2011. If you exceed the age limit, you might consider making the contribution to a Roth IRA as there is no age limit on making Roth IRA contributions. Your contribution for 2011 must be made by April 17, 2012. Tax filing extensions do not apply to making IRA contributions.

Q: I do not work outside of the home and my wife wants to make a contribution to my IRA, based on her income that she receives from her employer. Can she deposit my contribution to her IRA?

A: No. IRAs cannot be held as joint accounts. As such, you must establish a separate IRA for yourself, and your wife can deposit your contribution to your own IRA.

Q: I would like to convert my traditional IRA to my Roth IRA. Can it still be done for the 2011 calendar year?

A: It depends. If you took a distribution from your traditional IRA in 2011 and deposited the amount to your Roth IRA within 60-days of receiving the distribution, the amount will be treated as a conversion for 2011. If the funds have not already been distributed from your traditional IRA, or if they have been distributed and it has already passed the 60-day deadline, the conversion cannot be done for 2011■

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