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IRA News & TIPS

Content

Your IRA Calender . ... .Page 1
Don't Leave your 401(k)............. . . .. .Page 1
Disclaiming IRAs................................ ..... . .Page 2
Questions & Answers . ... .Page 4

Your IRA Calender

Please mark your calendar with the following deadlines:

September 30, 2011: The Deadline by which certain beneficiaries must be removed from inherited IRAs.

Generally, if you are one of multiple beneficiaries, you are required to use the life-expectancy of the oldest beneficiary in the group to calculate your required minimum distribution (RMD) amounts. This can reduce the amount of time over which you have to distribute your inherited IRA, and can negatively impact income tax and tax planning opportunities. This issue is compounded if one of the multiple beneficiaries is a nonperson such as a charity or an estate, as that might require the amount to be distributed over an even shorter period.

If the IRA owner died in 2010, you can avoid this problem by removing older and nonperson beneficiaries by September 30 of this year (2011). This removal process requires older and nonperson beneficiaries to take full distributions of their amounts by September 30, 2011, or the older beneficiaries to properly disclaim their portion by September 30, 2011.

For older beneficiaries who are not removed by September 30, 2011, segregating their share into separate accounts by December 31, 2011 will still allow younger beneficiaries to use their own life expectancies.

October 15, 2011: The deadline by which 2010 conversions must be recharacterized.

If you converted an amount from another retirement account to a Roth IRA during 2010, and you want to reverse (recharacterize) that conversion, you have until your 2010 tax filing deadline to do so. If you filed your 2010 tax return or filed for an extension by the due date (which is usually April 15), you receive an automatic six-month extension to complete the recharacterization. For calendar year filers, the automatic six-month extension ends on October 15.

October 15, 2011: The deadline to remove 2010 IRA excess contributions:

If you contributed more than is allowed to your IRA for 2010, you will owe the IRS an excise tax of 6% of the excess amount, unless you correct it by your 2010 tax filing deadline. Similar to the deadline for completing recharacterizations of Roth conversions, if you filed your 2010 tax return or filed for an extension by the due date (which is usually April 15), you receive an automatic six-month extension to correct the excess IRA contribution.

Please call me if you have questions about these and other deadlines that apply to your IRA■

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Don't Leave Your 401(k) at Your Old Job

Leaving your 401(k), 403(b), governmental 457(b), or pension plan (employer plan) at your old employer may seem easier than moving it to another account. However, while it does take less effort, the end results may cause difficulty and complications that can be avoided by rolling over those assets to an IRA. The

following are some reasons for rolling over your employer plan account to an IRA.

You Could Lose Track of Your Money

In 2010, the Pension Benefit Guaranty Corporation (PBGC) reported that it is holding almost $197 million in unclaimed pension benefits from terminated defined benefit pension plans that were formerly maintained by private sector employers. This number does not include other types of employer plans such as 401(k) plans and profit sharing plans, which would make the amount much larger.

Reasons for these benefits being unclaimed include:

- Employers going out of business: If your former employer goes out of business and leaves your assets with a financial institution, the financial institution may eventually have to turn over your account to the state if they are unable to reach you. For defined benefit pension plans, the amount would be turned over to the PBGC.
- Employers merging, consolidating, or being taken over by another company and having a name-change: This could make it difficult for you to find the employer and make withdrawals from your account.
- Employers changing plan administrators and/or financial institutions.

These are just a few of the reasons that can cause you to lose track of your retirement savings.

Tip: If you feel you have assets at an old employer and are unable to locate that employer or your assets, please let me know. I can help you to search for these assets.

More Investment Options

Most employer plans limit the choice of investments to a list of options chosen by the plan administrator, which can hinder effective diversification of your investment portfolio. On the other hand, IRAs allow more investment choices, including stocks, bonds, and annuities. This provides more flexibility when choosing an investment portfolio that is suitable for your investment profile.

More Flexible Beneficiary Choices

While your assets are in an employer plan, you are required to name your spouse as your sole primary beneficiary if you are married, unless you get approval from your spouse. Further, if you are single and you fail to name a beneficiary, your employer plan may provide that your beneficiary is your estate, which could negatively impact estate planning and income taxes for your beneficiaries. IRAs often provide less restrictive beneficiary options and, unless you reside in a community or marital property state, you can name anyone you choose as your beneficiary without requiring spousal consent.

Caution: Call Me Before You Roll Over

When rolling over your employer plan account to your IRA, ensure that the end result is consistent with your objective by taking certain factors into consideration. For example:

- Choose the right type of IRA: You have several options for rolling over your employer plan account. These include a rollover to a traditional IRA, which allows continued deferral of income tax on the amount and future earnings; and a rollover to a Roth IRA, where the amount would be included in your taxable income, but any future earnings could be tax-free. To qualify for the tax free, penalty free withdrawal of earnings, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59 ½ or due to death, disability, or a first time home purchase. Before taking any specific action, be sure to consult with your tax professional.
- You can also roll over the amount to another employer plan, but you might be subject to the same restrictions you are trying to avoid by rolling over the amount to an IRA. The IRA you choose for your rollover should be the one that is most suitable for your tax and financial goals and objectives.
- Check for Employer Stocks: If you own employer stocks in your 401(k) plan, it may make better tax sense to distribute those stocks to you, instead of including them in the rollover, if the stock appreciated significantly while in the 401(k).
- Choose Direct Rollover: The amount should be moved to your IRA as a direct rollover, paid to your IRA custodian for credit to your IRA, instead of paid to you. If the amount is paid to you, the plan trustee may be required to withhold at least 20% for taxes.

These are just a few of the factors that should be considered when you rollover your employer plan account to your IRA. Other, equally important factors can affect the end result and your planning opportunities for your retirement funds.

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Let Us Help You
Failing to check a box on a rollover request, providing unclear or incorrect delivery instructions, and choosing the wrong distribution option are just a few of the mistakes that can be made with your rollover. As such, extreme care must be taken when completing any rollover paperwork. Please contact me before initiating a rollover, so that I can help to ensure that the right paperwork is completed and that the proper elections are made ■

Why, How and What of Disclaiming an Inherited IRA

Beneficiaries who want to give up inherited IRA assets can do so without incurring any income tax or gift tax on the amount. To do so, the original beneficiary must disclaim the assets. Disclaimers are subject to a strict set of rules, and failure to follow these rules could result in the disclaimer being disqualified. The following are some general guidelines that you should follow in the event that you want to disclaim an IRA that you inherit, and the effects of making a disclaimer.

Why Some Beneficiaries Disclaim Inherited IRAs
Beneficiaries disclaim inherited IRAs for various reasons, which include:

- Stretching Distribution Period: An older beneficiary may disclaim an inherited IRA so that it is inherited by a younger beneficiary, which would allow distributions to be taken over a longer period. For instance, a 62 year-old beneficiary would have less than 24 years over which to distribute an inherited IRA, whereas a 31 year-old beneficiary would have about 52 years. The 31 year-old would have a better opportunity to accumulate more tax-deferred (or tax-free in the case of a Roth IRA) growth on the assets, as the annual required minimum distributions (RMD) would be smaller and the distribution period would be longer.

- **Correcting a "Bad" Beneficiary Designation:** A beneficiary may want to disclaim an inherited IRA to "correct" a beneficiary designation. For instance, assume that you inherited your spouse's IRA and estate. However, you feel that the estate is sufficient to meet your financial needs and want your children to inherit the IRA. Your objective can be accomplished if the children are next in line to inherit the IRA and you perform a qualified disclaimer. (See "What Happens When an IRA is Disclaimed" below). The reverse could also apply. Your children could have been named as the beneficiaries, but they want you to inherit the IRA. If you are next in line to inherit the IRA and they perform a qualified disclaimer, you would then be the beneficiary.

- **Tax and Estate Planning Reasons:** IRAs that you inherit and subsequently disclaim are excluded from your income for federal tax and estate tax purposes. Depending on state law, a disclaimed IRA may also be excluded from your income for state death tax purposes. Of course, an analysis should be done to determine whether these reasons are sufficient to justify a disclaimer.

How Disclaimers Are Done
In order for a disclaimer to be "qualified," it must meet certain requirements. These include the following:

- **Written Requirement:** Your disclaimer must be delivered to the IRA custodian in writing, and it must state your irrevocable and unqualified refusal to accept the IRA that you want to disclaim.

- **Deadline:** The IRA custodian must receive your disclaimer no later than nine months after the IRA owner's death or nine months after you reach the age of 21, whichever is later.

- **No Acceptance Before Disclaiming:** You cannot accept any of the assets before you make the disclaimer. For this purpose, "acceptance" includes taking a distribution from the account, or performing certain actions that can only be performed by someone who 'owns' the IRA.

Exception to Acceptance Rule:
If the IRA owner was of RMD age and died before the RMD was taken, you must take that RMD for the owner's year of death by the end of the year. Taking that RMD amount will not disqualify the disclaimer.

- **You Can't Say Who Gets it:** You cannot provide any direction as to who inherits the IRA as a result of your disclaimer. Instead, the asset must pass on to the person or party who would have inherited the IRA, had you not been named a beneficiary.

If a disclaimer does not meet these and any other requirements that apply, it could be disqualified, which might result in the amount being treated as a distribution

to you. Some IRA custodians and states have additional requirements that must be met.

What Happens When an IRA is Disclaimed

When a qualified disclaimer is effected, the beneficiary that is next in line inherits the IRA. This means that if you disclaim an IRA, the following will occur:

- If there is another primary beneficiary, that person inherits the IRA.
- If there is no other primary beneficiary, the contingent beneficiary will inherit the IRA.
- If there is no primary or contingent beneficiary, the beneficiary will be determined by the default beneficiary provisions of your IRA agreement.

In any of the options above, if there are multiple beneficiaries, the IRA would be shared among them according to the terms of the beneficiary designation.

It's Not All or None

A disclaimer is not an "all or none" option. Beneficiaries can disclaim a dollar amount or a percentage of an IRA that they inherit. As such, if you are considering a disclaimer, but want to keep a part of the IRA for yourself, that can be accomplished by doing a 'partial disclaimer'. When doing so, please ensure that you clearly indicate the amount or percentage that you want to disclaim.

I Can Help

As you can see, a disclaimer is a highly technical transaction, and should be handled with care. If you are considering disclaiming any amount of an inherited IRA, please be sure to contact me before taking any action. I will work with you to ensure your disclaimer meets the requirements to be 'qualified' ■

Questions and Answers

Q: I inherited a 401(k) account from my uncle. Can I roll over the amount to my traditional IRA?

A: It depends. If the traditional IRA is one that you established and funded with your own money, then you cannot roll over the 401(k) to that IRA. However, you can roll over the amount to an Inherited IRA, providing the account does not hold assets that you inherited from another decedent. The IRA must be coded as an 'Inherited IRA' so that distributions are reported as 'death distributions'. Also, it should be registered in the names of you and your uncle, and your social security number should be used for tax reporting purposes. An example of a correct registration is "Tom Smith as beneficiary of John Smith," because it shows which person is the decedent and who is the beneficiary. Any variation of this registration that an IRA custodian requires is acceptable, as long as it is clear that the account is an Inherited IRA, and distinguishes the beneficiary from the decedent.

Make sure that the plan administrator pays the amount to the IRA custodian for credit to your inherited IRA. If the amount is paid to you, you cannot roll over the amount to your inherited IRA.

If you have not already taken any required minimum distribution (RMD) that is due from the 401(k), be sure to take that amount before you initiate the rollover. This is necessary because RMD amounts cannot be rolled over■

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