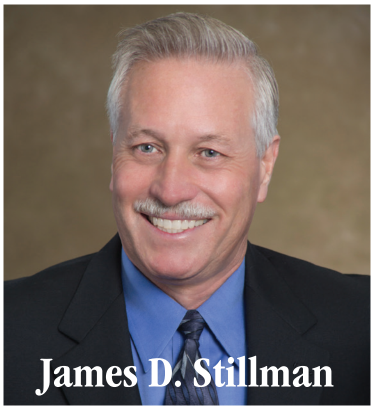
Between the Beacons

Charting Your Course to Retirement

Legacy Planning in Retirement


James D. Stillman

This month I'd like to discuss the fifth and final of our key areas of retirement planning using our "Chart Your Course Retirement Planning System" - **Legacy Planning**. We've already touched on income, investment, healthcare, and tax planning. In reality, legacy planning in its most basic form doesn't have to be much more than being a good steward of your money using the four planning areas already discussed, so you don't lose your hard-earned dollars. But what exactly do we mean when we say "Legacy Planning"? Simply put, it means taking some steps to allow you to leave a legacy (that's a fancy word for money) to your family, church, charitable organizations, educational institutions, etc.

It's quite interesting how different people have different ideas about leaving a legacy, especially when it comes to family. There seems to be two distinct camps when it come to passing on assets to loved ones, charities, or whoever:

1) "They'll get what they get" – We put our kids through college, we help out with the grandkids, and our children are very successful already. They won't need our help. I hope my first check bounces the day they put me in the grave. After all, the money we saved is for us to enjoy in retirement!

2) "Of course we want to have a legacy plan" - We've worked hard our whole life, didn't live beyond our means, saved as much as we could, and we've been very blessed. If we don't need what we've saved, we'd love to do what we can to maximize what we pass along to our family or our favorite charities. All we ask is that we're taken care of first, then we'd love for our legacy to live on.

Trust me, we hear both all the time, and both are perfectly valid ways of thinking. But there's one area where the "rubber really meets the road". That area is "qualified accounts" or IRA assets. Why? Because these monies are 100% taxable as ordinary income to beneficiaries other than your spouse. It's not uncommon to see beneficiaries pay 30% - 40% and sometimes even more in taxes when inheriting IRA assets. For most people, the majority of their assets in retirement are in qualified accounts. The bottom line is that if you don't plan for this, then the IRS could end up taking a big chunk from your beneficiaries. Let me be clear, eventually the IRS will get their share. It's a "pay me now, or pay me later" proposition.

Legacy planning basically revolves around two strategies - delaying paying taxes or replenishing tax dollars that will be taken by the IRS. When it comes to delaying taxes on inherited IRAs the most popular strategy is known as a Stretch IRA or Multigenerational IRA. That means that the account will be set up to pay out Required Minimum Distributions each year based on the beneficiary's age. This allows the beneficiary to pay the taxes (often at a lower rate than if they paid tax on the full lump sum) over time, as they would only be taxed on the distributed amount each year. Another strategy is to convert your existing IRA into a Roth IRA. You can do this all at once or systematically over multiple years. You would have to pay the taxes on what you convert, but once you've had a Roth IRA for five years and you reach the age of 59½ it becomes totally tax free - even to beneficiaries.

Assuming you don't need your full IRA RMDs to live on, then you could set up a "Leveraged Life Legacy Plan". You would take a portion of your IRAs and set up a guaranteed income stream. You then use that income to pay the premiums on a life insurance policy. This allows you to systematically spend down a taxable account, while leveraging the value into tax free life insurance death benefit for your heirs. In my opinion, this is the best legacy planning strategy in a lot of cases. It's an option that is at least worth exploring for a lot of folks. Most people don't even know they can do this.

At JDS, everything we do is designed to take the worry out of your retirement. If you'd like to set up a visit to discuss your retirement and get your own ***Chart Your Course Retirement Plan***, then give us a call.

And remember: ***The purpose of the money dictates where you put it!***

Until Next Month,
James D. Stillman

Chart Your Course to Retirement

Thursday March 1st &
Tuesday March 6th

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6:30pm (doors open at 6:00pm)

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