

## **Retirement**

### **Using a Trust as a Beneficiary**

The Internal Revenue Service permits the use of revocable trusts (that become *irrevocable* at the death of the account holder) as designated IRA beneficiaries. This option is very useful to individuals whose wealth is concentrated in their retirement plans and IRAs. If this is your situation, a key challenge is how to take full advantage of your personal federal estate and gift applicable exclusion amount. This exclusion amount is scheduled to increase to \$3.5 million by 2009.

#### ***Payment of estate and annual income taxes***

If you would like to pass your IRA to a beneficiary without it being reduced by estate tax, you may wish to specify in your will that non-IRA assets should be used to pay estate taxes (so long as the marital deduction is not reduced). You can provide the needed cash to pay your estate tax without tapping your IRA by purchasing either a single life or second-to-die life insurance policy. If you are over 70 ½ you may opt to use part or all of your required minimum distribution from the IRA to pay the annual premiums.

To further leverage your dollars, you may consider implementing a strategy within an irrevocable life insurance trust. If structured properly, distributions through the trust may be completely income- and estate tax free.

#### ***The "Dynasty IRA" Stretches Tax-Deferred Growth to the Maximum***

A planning concept that is gaining popularity is known as the "Dynasty IRA." This type of IRA election allows your traditional or Roth IRA to be inherited by children, grandchildren or even great-grandchildren. Upon your death, your beneficiary's actual life expectancy would determine a new, much prolonged, schedule of annual payments. This means that more of your IRA stays income-tax-deferred for an extended period, greatly increasing the opportunity for tax-deferred growth, and the potential value of the IRA to your beneficiaries. Of course, since you are not leaving the value of your IRA to your spouse, it is in your taxable estate for state and deferral purposes.

If the "Dynasty IRA" is an option for you, you need to be sure that young beneficiaries have professional guidance for their investments and that the terms of the IRA are administered correctly over many years. A Trust Company IRA may be the ideal vehicle to structure the "Dynasty IRA".