RYAN POAGE & CO.
INVESTMENTS | WEALTH MANAGEMENT

TAKING STOCK

Third Quarter 2016

816-531-4555

Six Hurdles To Overcome In Stretch IRA Planning

The traditional IRA is a proven vehicle for retirement saving. Contributions you make during your working days may be partially or wholly tax-deductible. These amounts are invested and can compound without being eroded by current taxes. Generally, you'll be making withdrawals, taxed as income, during your retirement, when you may be in a lower tax bracket than you were at the peak of your career.

But you may decide to supplement or replace traditional IRAs with Roth IRAs. For those, you can't deduct contributions, but future distributions are likely to be completely tax-free after five years. You can convert funds in a traditional IRA to a Roth by paying current income tax on the amount you convert.

One other big difference between these two kinds of retirement accounts is that with a traditional IRA, you eventually have to take money out—and pay taxes on your withdrawals. Required minimum distributions, or RMDs, must begin after you reach age 70½. In contrast, you can leave the money in a Roth IRA untouched during your lifetime and pass it along to your heirs.

But even with a traditional IRA, "stretch planning" can help you preserve more of your savings for future generations. This approach enables IRA benefits to be stretched out over the lives of the designated beneficiaries long after you're gone.

Many complex rules apply to IRAs that are inherited. A beneficiary who is a spouse has more flexibility than someone who isn't. Generally, anyone other than a spouse must empty the IRA based on his or her life expectancy or within five years. To further complicate matters, recent budget proposals, if enacted, could curb IRA stretch planning. You may want to lock in your plans now to protect against future changes in the rules.

These six hurdles often stand in the way of maximizing the benefits of stretch planning:

1. Incorrect titling. Different IRA custodians may have different requirements for how inherited IRAs are titled. But correct titling should include the deceased owner's name as well as language indicating that the account is an inherited IRA. For example: "John Adams, deceased, IRA for the benefit of John Quincy Adams."

2. Failing to take RMDs. Just as you're required to take these distributions—based on the account balances in the prior year and life expectancy tables—from a traditional IRA once you reach age 70½, your beneficiaries must take RMDs from

(Continued on page 4)

What Goes Up ...

This summer might be remembered in the financial markets as the height of foolish behavior in the bond markets. After a 35-year stretch of declining interest rates, the yields on bonds around the world further plummeted to unfathomable levels. Germany, Switzerland, and Japan have sold 10 year bonds with negative yields. Ten-year and 30-year U.S. government bond yields dropped to 1.36% and 2.17%, respectively.

This huge run-up in bond prices (which causes the yields to fall) seems reminiscent of the final surge in stocks before the bull market of the 1980s and 90s came to an end. Not in the sense of wild speculation, but of living in an investment world that doesn't make sense. The stimulus-induced low rates are causing money to go places where it normally wouldn't, and it would be naive to think that there won't be unwanted side effects.

Only time will tell if this results in a serious problem, but now would be a good time to make sure you aren't overly exposed to richly priced assets like long-term bonds and utility stocks. If you don't work with us or have other accounts you'd like a risk assessment on, we're happy to help.

Ryan

Are You Afraid Of The Estate Tax?

Who has to worry about federal estate taxes? They're an afterthought if you believe they affect only families such as the Rockefellers and DuPonts. But the truth is that the reach of this tax may extend further than you think, according to the latest IRS statistics.

Estate Tax Returns Filed in 2014, published in an IRS Statistics of Income report, shows that 11,931 estate tax returns were filed in 2014 on estates with a total value of $169.5 billion. Those figures represent a significant increase from the 2013 IRS statistics when 10,568 returns were filed on estates valued at a total of $138.7 billion, continuing a recent upward trend.

In other figures of note, the breakdown for 2014 estate tax return filings based on gross estate valuation were as follows:

- For returns under $5 million, 1,631 returns were filed on estates totaling $5.4 billion in value.
- For returns of $5 million to $10 million, 6,735 returns were filed on estates with a total value of $46.2 billion.
- For returns of $10 million to $20 million, 2,283 returns were filed on estates with a total value of $30.9 billion.
- For returns of $20 million to $50 million, 938 returns were filed on estates worth a total of $27.9 billion.
- For returns of $50 million or more, 345 returns were filed for estates worth $59.1 billion in total.

The figures are interesting on a couple of levels. First, they indicate that more families are being hit by the federal estate tax. Second, they would be even higher if taxpayers didn't avoid federal estate tax complications through some smart legal maneuvering.

Consider these basic tax breaks that are at your disposal: Under the unlimited marital deduction, any amount transferred from one spouse to another, whether by gift or bequest, is completely exempt from tax. In addition, amounts you leave to other beneficiaries such as your children and grandchildren are covered by the unified estate and gift tax exemption of $5.45 million in 2016. Also, the annual gift tax exclusion allows you to give each family member and others up to $14,000 free of gift tax in 2016. Gifts above this limit may be sheltered by the unified estate and gift tax exemption, although this will erode the amount available to reduce estate taxes.

Furthermore, the "portability" provision in the tax code provides extra flexibility for married couples. If a proper election is made, the estate of a surviving spouse can benefit from any unused portion of the estate tax exemption of the first spouse to die.

By utilizing and combining these tax breaks through various estate-planning devices, including sophisticated trusts, you may avoid the high tax bills awaiting unsuspecting families. Finally, don't overlook the potential impact of state inheritance taxes. Contact our office for more details. ●

The Path For Charitable Lead Trusts

One popular tax planning idea is to set up a charitable remainder trust (CRT). Typically, it provides an income tax deduction for the present value of your charitable contribution while removing the assets from your taxable estate.

Depending on your circumstances, however, you might want to consider the opposite approach and set up a charitable lead trust (CLT).

With a CRT, you fund a trust with assets of your choice. The CRT pays out annual income to an "income beneficiary"—this can be you or another family member. After a term of a specified number of years or your lifetime, the assets that remain in the trust go to the designated charity.

The income tax savings are immediate. When you set up a CRT, you're entitled to a deduction for the present value of the remainder interest that will go to the charity, even though that transfer may not happen for years. If you put securities that have appreciated in value into the CRT, you'll never be taxed on that appreciation. This could help you minimize or eliminate gift tax liability on the assets transferred to the CRT. Finally, the assets in the trust won't be included in your taxable estate.

There are two basic versions of CRTs—the charitable remainder annuity trust (CRAT) and the charitable remainder unitrust (CRUT). With a CRAT, the payment to the income beneficiaries must be a fixed amount equal to at least 5% of the value of the amount of your donation. A CRUT, in contrast, also requires an annual payment of a fixed percentage of the trust assets, but in this case the payment is based on their current fair market value.

To keep the assets in your family, you might opt for a CLT instead. In this case, the charity receives the annual income, but the remainder goes to the designated family members. As with a

Dispel These 6 Common Myths About Medicare

Medicare is one of the most critical elements of health care for senior citizens in this country. It's also one of the most misunderstood. A number of myths about Medicare have proliferated, costing countless enrollees both time and money. Here are six myths you might be swayed by and the reality about them:

Myth #1: You must be retired to apply for Medicare.

Reality: You can sign up for Medicare at age 65 regardless of whether you're still working or are already retired. And even though many people lump together Medicare and Social Security, the full retirement age (FRA) for receiving Social Security retiree benefits—currently 66 for most people but gradually rising to 67—has nothing to do with Medicare eligibility. But you can be penalized for applying late for Medicare, so sign up as soon as you reach age 65.

Myth #2: You won't qualify for any Medicare assistance if you haven't worked long enough.

Reality: It's true that you must have at least 40 work credits to qualify for Medicare Part A (hospital insurance). But there's no such requirement for Part B (physician services, outpatient care, and medical equipment and supplies) or Part D (prescription drugs). You're eligible for these programs if you are at least age 65, are a U.S. citizen or have been a legal resident in the U.S. for the past five years, and you submit a valid application. In addition, even if you haven't worked enough to earn 40 credits, you still may qualify for Part A based on your spouse's work record or you could choose to pay the premiums to get Part A coverage.

Myth #3: Medicare Part B costs the same no matter when you apply.

Reality: If you fail to sign up when you reach age 65, you will pay more for the Part B program when you do apply, and your coverage may be delayed. The extra cost comes in the form of surcharges on your premiums for all future years. If you're continuing non-Medicare health insurance past age 65 while still employed, or if you are covered under your spouse's health plan, you can avoid penalties for late Part B enrollment. Otherwise, you're required to enroll during an initial seven-month period that includes the three months before you turn 65, the month you reach that age, and the three months after that.

Myth #4: You don't need Medicare Part B because you have COBRA or retiree coverage.

Reality: Although Part B is optional, don't be fooled into thinking that it's useless when you have other coverage. In some cases, coverage under your non-Medicare plan will leave you responsible for high out-of-pocket costs. Under COBRA, you're generally covered for a period of 18 months after retirement, although you usually have to pay the premiums (plus a 2% administrative fee). The deadline for enrolling in Part B following expiration of COBRA coverage is eight months after you stop working. Again, if you fail to do so, you'll be hit with surcharges on your Part B coverage.

Myth #5: You don't need Part D coverage for prescription drug costs because you don't take any medicines regularly.

Reality: This would be true only if you manage to go through the rest of your life without needing any prescriptions drugs. But that's unlikely, and it makes sense to safeguard yourself from exorbitant costs that easily could reach hundreds or thousands of dollars a month if you fall ill. Like other forms of insurance, Part D protects you against future events that may happen. If you wait to apply for Part D until it's an emergency, you could be assessed permanent penalties for applying late. Part D also can work in conjunction with drug coverage under other plans.

Myth #6: You can sign up for Medicare only during the annual "open enrollment" period.

Reality: This is a principal misconception about Medicare. The annual open enrollment period—from October 15 to December 7—is an opportunity for those already covered by Medicare to change their coverage. It doesn't apply to newcomers, whose time to enroll is based on their birthdays or the end of coverage through their employers or their spouses' employers. If you miss out, you're subject to permanent penalties and delayed coverage.

Don't be guided by what you think you know about Medicare. Get all the facts you need to make informed decisions. ●

CRT, a CLT may be set up as a charitable lead annuity trust (CLAT) or charitable lead unitrust (CLUT).

Unlike with a CRT, a donation to a charitable lead trust normally won't entitle you to a current income tax deduction. However, if the CLT is structured as a grantor trust whose income is taxable to you, you may claim a deduction for the present value of the charity's interest. These rules are complex, so obtain expert advice.

A properly structured CLT will provide an estate or gift tax deduction for the value of the portion of the trust that's designated for charity. That often makes it possible to transfer a remainder interest to family members without large tax costs. Taking all relevant factors into account, family members may wind up with an amount close to what they would have received through a direct bequest of the assets.

CLTs are not for everyone, but this concept might suit your needs. Consult with your advisors about the opportunity. ●

RYAN POAGE & CO.
INVESTMENTS | WEALTH MANAGEMENT
PLAZA CORPORATE CENTRE
800 W. 47TH ST., STE. 700
KANSAS CITY, MO 64112
816-531-4555
877-531-4555
WWW.RYANPOAGE.COM

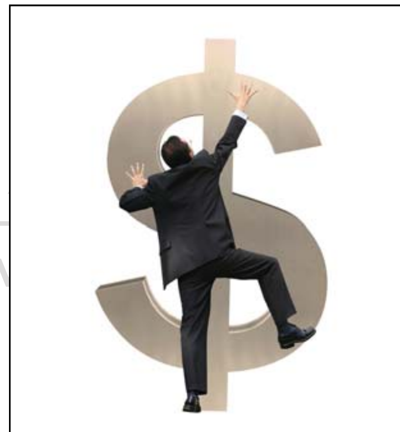
Six Hurdles To Overcome

(Continued from page 1)

both traditional and Roth IRAs. The penalty for failing to do so is 50% of the amount that should have been withdrawn (in addition to the regular tax).

3. Missing the deadline for a qualified disclaimer. If family members such as your adult children don't want or need the money in an inherited IRA, they can "disclaim" all or part of the inheritance. If a qualified disclaimer is made within nine months of your death, the IRA assets will pass to the secondary beneficiaries you've named—perhaps your grandchildren. That can keep the IRA going for a longer period of time as long as the disclaimer is made before the deadline.

4. Failing to consider all of the implications of a disclaimer. As useful as disclaimers can be, they also can have unintended consequences, perhaps shortchanging an heir who later needs the money. And once a disclaimer is made, it can't be rescinded.



5. Taking a lump-sum distribution. This is an option for beneficiaries of an inherited IRA, but it can create a spike in income tax, which could include a shift to a higher tax bracket, and could have other unwanted consequences. This decision, too, can't be undone.

6. Failing to analyze account rollovers for spouses. A spouse who inherits an IRA has added flexibility and can choose to roll over funds to his or her own IRA, a move that may delay when RMDs must begin. And if an inherited IRA is payable to a spouse, that person won't be subject to the usual 10% penalty for early withdrawals before age 59½. But leaving an IRA to someone other than a spouse may help the family accumulate more wealth over time. ●

This information should not be construed as a recommendation of an investment plan for all investors and should not be interpreted as tax or legal advice. Articles are written by a financial journalist hired by Ryan Poage & Co. and do not constitute a solicitation for the purchase or sale of any security.
©2016 API