Avoiding common IRA mistakes

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Underlying IRA Contract

Mistake # 1

- Assuming they are all the same

How to Avoid:

- Read and understand the underlying contract!

Failure to Take Required Minimum Distributions (RMD's)

Mistake # 2

- RMD's must be taken by April 1 of the year after the owner turns 70 ½
- 50% penalty on amounts not distributed

How to Avoid:

- Pay attention to custodian notices that must be sent
- Review plan and distribution options

Immediate Annuity RMD Rules

Mistake # 3

- Assuming that an annuitization of one contract will satisfy RMD requirements for all other contracts

How to Avoid:

- An annuitized IRA satisfies the RMD for that contract only

Beneficiary – The Estate

Mistake # 4

- No Beneficiary or Naming the Estate as Beneficiary

How to Avoid:

- Name specific people as beneficiaries or, when appropriate, a trust
- Utilize Spousal Rollover/Continuation
- Keep Beneficiaries up-to-date

Beneficiary – Contingent or Successor

Mistake # 5

- No Contingent and Successor Beneficiary

How to Avoid:

- Name a Contingent and Successor Beneficiary

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Sample Beneficiary Arrangement

Primary Beneficiary	Contingent Beneficiary
Spouse	Children or Trust

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Beneficiary - Minor

Mistake # 6

- Naming a Minor as a Beneficiary

How to Avoid:

- Name a Trust for the Minor's Share
- If Appropriate, UTMA

Contributions between Jan 1st and April 15th

Mistake # 7

- Failure to designate for which year a contribution is made

How to Avoid:

- Can be made for previous or current tax year.

60-Day Rollovers Limited to One Per Year

Mistake # 8

- Requesting more than one rollover in any one year period from one IRA to another.

How to Avoid:

- Request a direct rollover for these funds
- Only applies on transfers from one IRA to another

60-Day Rollovers-Self-certification

Mistake # 9

- Inability to timely complete 60-day rollover may be forgiven if requested

How to Avoid:

- Taxes and penalties may be waived if Revenue Procedure 2016-47 is applicable

60-Day Rollovers On Inherited IRA

Mistake # 10

- Attempting to use a 60-day rollover with an inherited IRA is considered a taxable distribution

How to Avoid:

- Must be done by way of a trustee to trustee transfer, also called a “direct transfer”

60-Day Rollover From Qualified Plan

Mistake # 11

- Failure to replace mandatory 20% withholding when performing 60 day rollover - subject to tax and penalty

How to Avoid:

- Perform a direct rollover instead

Leaving Assets To Charity At Death

Mistake # 12

- Leaving IRA assets to heirs and other property to charity
- IRA assets are fully taxable to heirs

How to Avoid:

- Leave property that receives a stepped up basis to heirs and IRAs to charity
- IRA assets are not taxable to charity

Qualified Charitable Distribution

Mistake # 13

- Failure to take advantage of this option for IRA based gifts to charity

How to Avoid:

- Instruct IRA trustee to directly transfer funds from IRA to charity

Limited to $100,000 per individual per year

Extended Distributions

Mistake # 14

- Failure to take advantage of opportunities to delay distributions

How to Avoid:

- Employ the “Stretch” or “Extended” IRA concept to maximize distributions

IRA Death Benefits

Mistake # 15

- Treating all beneficiaries the same
- Beneficiaries usually take a lump sum from an inherited contract

How to Avoid:

- Restrictions may be placed through a trust or product provisions

Multiple IRA Contracts

Mistake # 16

- Taking a required minimum distribution from every IRA every year

How to Avoid:

- Take all distributions from one IRA to keep guarantees intact on other IRA contracts

Spousal Continuation Options

Mistake # 17

- Automatically performing spousal rollover at death of first spouse
- Rollover may foreclose options

How to Avoid:

- Spousal rollover may be done at any time, even many years later
- May be subject to 10% penalty

Leveraging Distributions

Mistake # 18

- Failing to consider leveraging unneeded required distributions into greater total utilizing life insurance

How to Avoid:

- When structured properly, life insurance death benefit is income tax free, and possibly estate tax-free

Inherited IRA Distributions

Mistake # 19

- Naming a traditional trust as beneficiary
- Each beneficiary must use the life expectancy of the oldest for distributions

How to Avoid:

- Name a qualifying trust
- Create subtrust or separate trusts for each beneficiary

Death of Owner Before RBD

Mistake # 20

- Assuming all death distributions are the same

How to Avoid:

- If Beneficiary fails to take minimum distributions based on their own life by 12/31 of year after owner's death, will default to five year rule

Death of Owner After RBD

Mistake # 21

- Planning to elect a five year option

How to Avoid:

- Beneficiary must use the longer of their own life expectancy the following year, or use the owner's age in the year of death
- Must take distributions by 12/31

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Non-natural Beneficiaries

Mistake # 22

- Failure to pay out to estate or charity by September 30 of the year after death by creating separate accounts for each

How to Avoid:

- Pay amounts to estate or charity so individuals can distribute based upon their own life expectancy

Roth IRA's

Mistake # 23

- Failure to consider converting a traditional IRA or qualified plan balance to a Roth

How to Avoid:

- Analysis contains many factors including current and future tax brackets, length of deferral and intentions for the funds

Stockpiling RMD’s

Mistake # 24

- Taking more than RMD requirements in one year and thinking it will reduce the RMD the next year

How to Avoid:

- RMD’s are minimum amounts to be taken out. A client can always take more, but there is no reduction for subsequent years

Summary

- Read the Contract or Prospectus
- Coordinate With Client’s Other Planning
- Understand Tax Consequences
- Understand Benefits & Features of Current and Proposed Contract
- Whenever Possible, Keep It Simple
- Ask for Help

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