

# TRUST & ESTATE ADMINISTRATION

# INDIVIDUAL RETIREMENT

# ACCOUNTS (IRA)



## WHAT IS AN INDIVIDUAL RETIREMENT ACCOUNT?

An IRA is an account that holds tax-favored retirement assets for you and your beneficiaries. An IRA can be established by anyone who is under age 70 1/2 who has earned income – i.e. wages, commissions, bonuses, or partnership income. An individual may contribute to an IRA on an annual basis. The income from a traditional IRA is not currently taxable to the IRA owner, and thus the account grows on a tax-deferred basis. Working spouses who file joint returns may each establish an IRA. Individuals who are 50 years of age or older can contribute additional “catch-up” contributions to their IRA.

## TAX ADVANTAGES OF TRADITIONAL IRAS

In some cases an IRA contribution is tax deductible. If an individual is not an active participant in another qualified plan such as a workplace 401(k) plan, he can deduct IRA contributions fully. If an individual is an active participant in a qualified plan, then a deduction is allowed depending on the level of his or her adjusted gross income (“AGI”). Remember that even individuals who cannot deduct any part of an IRA contribution can still make non-deductible IRA contributions. An individual can roll over existing IRAs or even qualified retirement plan 401(k) assets from an existing manager to a new investment manager (such as First Business Trust & Investments) and still retain their tax-favored status. Likewise, an IRA beneficiary could roll over inherited IRA assets to a new account without adverse tax consequences.

## HOW WILL MY IRA MONEY BE INVESTED?

An individual retirement account is a plan established by a written trust or custodial agreement with a bank acting as your trustee or custodian. In this way IRA funds can be invested in stocks, bonds, mutual funds, or CDs. The trustee of an IRA is responsible for investing the assets in your IRA according to the terms of documents that have been approved by the IRS. At First Business Trust & Investments, we work with you to create an individualized Investment Policy Statement for your IRA account that states exactly how your assets will be invested. These managed accounts are monitored on a regular basis and assets are reallocated as necessary in order to maximize account performance.

## INCOME TAX DEFERRAL

Income tax deferral on IRAs is an extremely important consideration for most retired clients, their surviving spouse and other beneficiaries. We work with the client’s attorney to ensure the proper disposition of IRA benefits as part of the client’s overall estate plan, and to structure distributions so as to prolong the payout period and thus increase wealth to future generations.

## IRAS PAYABLE AT DEATH TO TRUSTS

Generally only individuals with quantifiable life expectancy can be designated as beneficiaries of an IRA. An IRA that does not pay out to an individual forfeits the income tax deferral that would be accomplished by a stretched out distribution period based on the beneficiary’s life expectancy.

However, in some cases individuals may wish to name a trust, rather than an individual, as the beneficiary of an IRA. This is the case when minors or disabled individuals are involved and the donor is concerned about the ability of the recipient to handle and invest often significant sums of money. A trust can qualify under certain circumstances as the recipient of IRA assets at the account holder’s death, if: (1) the trust is valid under state law; (2) the trust is irrevocable upon death of owner; (3) beneficiaries of the trust are identifiable from the trust instrument; (4) the documentation requirement is satisfied.

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The rules pertaining to trusts that receive IRA benefits are complex. Therefore, great care needs to be taken in both the drafting and the administration of the Trust to ensure that the estate planning goals of the account holder are met without sacrificing the tax benefits of the IRA.

You may wish to consider naming a corporate trustee such as First Business Trust & Investments if you intend your IRAs to pay to trusts instead of outright to individuals, in order to insure maximization of tax benefits and appropriate beneficiary distributions.

Our portfolios are structured to meet the individual needs of the ward – to generate income for current needs as well as growth in principal to cover future expenses such as education and long term health care costs.

## **WANT TO LEARN MORE?**

Let's talk. Contact your First Business representative today.