

# Don't Be Rolled Over By Your Rollover!



New Considerations For Planning Your  
Retirement Plan Distribution Options



Online Seminar

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**PRESENTED BY:**

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*Thank you for taking time out of your busy day to attend.*

### **SCOTT E. GALBREATH**

- SNSFE partner
- Helping businesses save money, attract talented employees, and better compensate key players through employee benefit plans for 20 years
- Write and speak often about employee benefits
- B.A. high honors, Elmhurst College; J.D. and LL.M. (Tax) with honors from IIT Chicago-Kent College of Law

### **SNSFE**

- Established in 1960
- Full service business law firm
- Representing closely-held businesses, entrepreneurs and individuals
- From start-up to succession planning
- “AV” Peer Review Rated

## What we'll cover

- **The new nonspouse rollover rules**
- **An overview of the minimum required distribution rules**
- **Why planning is important**

## **Minimum Required Distributions (MRDs)-What**

- **Qualified plan requirement (including IRAs)**
- **A minimum requirement of when the entire benefit must be paid**
- **Plan can provide quicker distributions**
- **Familiar rule: Required beginning date-age 70 1/2**

## **MRDs during life-When**

### **General rule:**

**-At required beginning date participant must begin taking distributions either:**

**Over his/her life expectancy under the uniform life table (life expectancy rule) or**

**Take the entire benefit within 5 years (5 year rule)**

## MRDs at Death-When

**If participant/owner already began MRD's:**

**If left a Designated Beneficiary**

**Life Expectancy Rule – beneficiary must receive a deceased participant's entire account balance through annual distributions over his/her life expectancy or over the participant's remaining life expectancy if greater beginning the year after the year of death**

**-Calculated under single life table**

**If no Designated Beneficiary**

**5 Year Rule – beneficiary must receive participant's entire account balance within 5 years of the year after the year of death**

## MRDs at Death-When

If participant/owner dies before MRD's began:

*If Designated Beneficiary*

Life Expectancy Rule – beneficiary must receive a deceased participant's entire account balance through annual distributions over his/her life expectancy beginning the year after the year of death

*If no designated beneficiary*

5 Year Rule

## **MRDs at Death before MRD's began**

**Retirement plan can choose which rule shall apply**

- 1. Specify it in the plan document**
- 2. Provide that the participant or beneficiary may elect**

**If plan silent, life expectancy rule applies if the participant named a designated beneficiary**

**If not, the 5 year rule applies**

## Designated Beneficiary

- **Individuals**
  - If multiple use life of oldest
  - Or divide into separate shares
- **Certain “see through” trusts**
- **Not:**
  - Estate
  - Charitable organization

## See Through Trust

- **Valid under state law**
- **Irrevocable on death of participant**
- **Beneficiaries of trust must be identifiable**
- **Provide documentation to plan administrator**
- **All current beneficiaries are individuals**

## Special Rules For Spouses

**Life time distributions calculated under uniform life table**

- **If participant's spouse is more than 10 years younger than use Joint and Last Survivor table causing smaller MRDs**

## Special Rules For Spouses

### If a Surviving Spouse is Sole Beneficiary

- and participant dies before having to take MRDs, then spouse need not take distributions until the participant would have had to take them
- *Ex. H dies at age 60 leaving W age 55, W need not begin distributions until H would have had to start MRDs--2018*

## Special Rules For Spouses

### If a Surviving Spouse is Sole Beneficiary

- and participant dies after MRDs have begun, then same as any other beneficiary.
- Must begin MRDs by year after year of death and life expectancy is longer of spouse or participant

## Special Rules For Spouses

- Life expectancy determined under SLT is recalculated annually to determine the amount of the distribution which means lower distribution than non-spouse designated beneficiary
- Nonspouse beneficiary's life expectancy calculated at first payment and then reduced annually

## **Special Rules For Spouses-Spousal Rollover**

- **Spouse may roll over benefits from a qualified plan into an IRA**
  - **Still take MRDs as beneficiary**
- **May treat the IRA as her own**
  - **Start taking MRDs at her age 70 ½**
  - **Distributions calculated using Uniform Lifetime Table instead of single life table**
    - **Smaller annual distributions**

## Special Rules For Spouses-Spousal Rollover

*Ex. H dies at age 60 leaving W age 55.*

**W need not begin distributions until W turns 70 1/2**

- **Giving 5 more years of deferral**
- **W gets to name own beneficiary**

## **New Non-Spouse Rollover Rules**

**Prior to 2007, nonspouses could not roll over survivor benefits from a qualified retirement plan to an IRA.**

### **Pension Protection Act (“PPA”) of 2006:**

- **If nonspouse beneficiary directly rolls over the death benefits into an IRA designated to receive such benefits, the rollover will be tax-free to beneficiary**
  - **must be directly from qualified plan to IRA**
  - **allows nonspouses to avoid immediate taxation**

## **New Non-Spouse Rollover Rules**

**Not as advantageous as first seemed:**

- **Nonspousal rollover not available if plan doesn't permit it**
- **Nonspouse beneficiary cannot elect to treat the rollover IRA as his/her own**
- **MRDs from IRA follow same rule as specified in qualified plan**

## **New Non-Spouse Rollover Rules- Exception**

**If participant dies before required to take distributions and 5-year rule applies:**

- **Can elect the life expectancy rule if rollover made prior to end of year following the year of death**
  - **Taxable MRD for such year**
- **To pay no tax, rollover must be made in the year of death**

## **Why beneficiary planning is important**

- **Lots of money**
- **Lots of taxes involved if done wrong**
- **Lots of rules and traps**
- **Goals**
- **Coordination of estate plan and income tax planning**

## **Coordination of estate & income tax planning**

- **Need to consider retirement assets in context of entire estate**
- **Preprinted beneficiary designation form is often inadequate**
- **Typical probate avoidance A-B trusts will not qualify as a see-through trust**
- **Provisions of estate planning documents and retirement account documents must be reviewed to ensure they don't conflict**

## **New Roth IRA Conversion**

- **Tax Increase Prevention Act 2005**
- **Beginning in 2010 anyone can convert an IRA to a Roth IRA**
  - **Used to be limited to \$100,000 AGI or less**
- **For 2010 pay tax in 2011 and 2012**

## **Estate Planning Advantages: Roth IRA**

- **Roth-IRA is a great tool for transferring wealth to next generation**
- **Beneficiary of a Roth-IRA does not have IRD at the owner's death**
- **Because no MRDs, the balance is not depleted if not needed**

# Questions?

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*Thank you!*