

THE BIGGEST CHANGE IN 30 YEARS

- The “plain vanilla” IRA - 1975
- April, 2002, the “stretch” IRA concept was born, but attorneys and CPA’s throughout the country were looking to the IRS for understanding as to how a trust could be used to implement the benefits and protections of a stretch IRA.

The IRS had not issued many guidelines except to say that a typical Living Trust generally would not qualify as a “designated beneficiary”.

- However, in the years 2004, 2005, and 2006, many Revenue Rulings and Private Letter Rulings were issued to clarify matters.

NOW WE HAVE THE OPPORTUNITY TO:

- **Keep your IRA intact after you die;**
- **Permit tax deferral for years to come on behalf of your children or grandchildren;**
- **Continue the stretch-out throughout the entire lifetime of your designated beneficiaries; and**
- **Stretch can last 30... 50... or even 80 years or more.**



WHERE DO I GO FROM HERE?

What should you do as a result of these changes in the law? Who should be named as the beneficiary of your IRA? Your living trust is NO LONGER the best choice to name as the beneficiary of your IRA! Additionally, the stretch-out is *not automatic*. It requires planning to ensure the maximization and protection of your IRA.

You should consult someone who has considerable experience in this area and is willing to work with your current advisors.

Even if you do not take advantage of the IRA Preservation Trust, we strongly encourage you to review your IRA beneficiaries now.

IRA Preservation Workshops

Offered through Libertyville High School Adult Education:

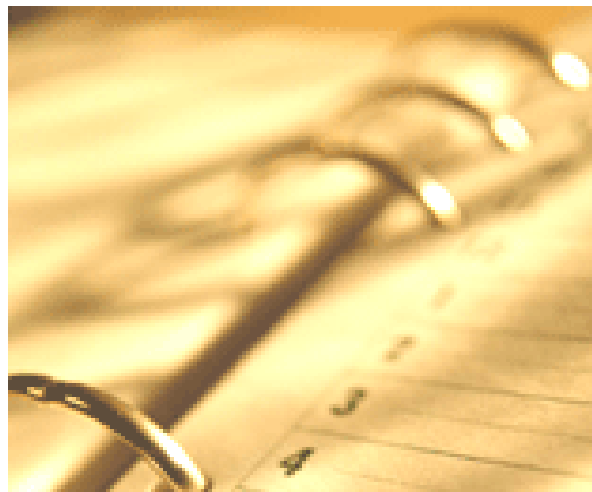
Wednesday, October 1 – 7:00-9:00 pm

Register: www.comed128.org or call (847)932-2176

Offered at our Libertyville Offices:

Thursday, October 16 – 7:00-9:00 pm

Register by e-mail langm@eblawgroup.com or call Mary Lang at (847)367-4460



One more Thing: Do you know your “NUA”?

If you own company stock in your 401(k) or profit-sharing plan, you need to know about “Net Unrealized Appreciation” or “NUA”. According to Robert Keebler, CPA, MST, a partner with Virchow, Krause & Company, you can

- keep the stock in your employer’s plan;
- transfer the securities to an IRA via a tax-free rollover;
- take 100% of the securities out via a lump-sum distribution; or
- transfer a portion of the securities to an IRA via a tax-free rollover, while taking the remaining portion out as a lump-sum distribution.

Deciding which option to choose requires knowledge of income tax laws and a thorough understanding of one’s finances.

Making the wrong choice can be very expensive. Please let us help you make the right choice!



Your Family Matters™

The IRA Preservation Trust

Special Edition

Courtesy of:

ESTATE & BUSINESS LAW GROUP, P.C.

Howard M. Lang, J.D.
Marguerite A. Kopke, J.D.
Attorneys & Counselors at Law

What’s Inside

Monumental Recent Changes Affecting IRAs Pg.1

Why Your Living Trust is NOT suitable to hold your IRA Pg.2



What Can my Family do With the Stretch-out Proceeds? Pg.3

Are There Other Advantages of an IRA Preservation Trust? Pg.3

The Biggest Change in 30 Years Pg.4

Where do I go from Here? Pg.4

Workshop Schedule Pg.4

MONUMENTAL RECENT CHANGES AFFECTING IRA’S

WHY SHOULD I READ THIS ARTICLE?

Recent, exciting changes in the area of IRA distribution planning have dramatically affected IRAs and other qualified plans. If you have an IRA *and* if you do the right things, the IRA will continue to grow tax-deferred for decades, which means that your children or grandchildren will receive *three* times, *five* times, or even *ten* times more lifetime income than they otherwise might have received. The IRA Preservation Trust is new. And because it’s new, many attorneys and most financial advisors have not been made fully aware of some of the benefits and concepts outlined in this article.

OLD RULES-EXAMPLE

The old rules worked this way: Let’s say dad died, and mom rolled over his IRA into her IRA. Then mom dies at age 76. Under the old law we had to look at mom’s life expectancy which would be about another six years. The non-spouse beneficiaries, like children or grandchildren, would in most cases have to take out the entire account and pay all the tax in just six years. There will be almost no tax free compounding.

NEW RULES-SAME EXAMPLE

Now, with the use of careful planning, look at the same situation today: Let’s say a child is age 37 at mom’s death and inherits mom’s IRA. According to the new tables, the child now has over *46 years* to withdraw the IRA proceeds, instead of just six years under the old rule! And during those 46 years, the child begins by taking out distributions of 1/46th the first year, and the next year 1/45th, then 1/44th, 1/43rd, and so on. In other words, the child is required to take out a little over 2% per year. Assuming the IRA is growing at 7% per year, it is continuing to grow year after year. What this means is that over time the account is going to be worth far more when you can stretch out the taxes for 40 more years. The “Rule Of 72” tells us that this account will double about every ten years, and with 46 ½ years to take the withdrawals, the IRA is going to double *four* times.

THE “STRETCHOUT”: WHAT IS IT, AND WHY DO IT?

The new Required Minimum Distribution “RMD” rules mean longer income tax free compounding of your IRA after you’re gone, and *much longer* income tax free compounding for non-spouse beneficiaries. Why?

ESTATE & BUSINESS LAW GROUP, P.C.

700 Florsheim Drive, Suite 11, Libertyville IL 60048

Phone 847-367-4460

Fax 847-367-0090

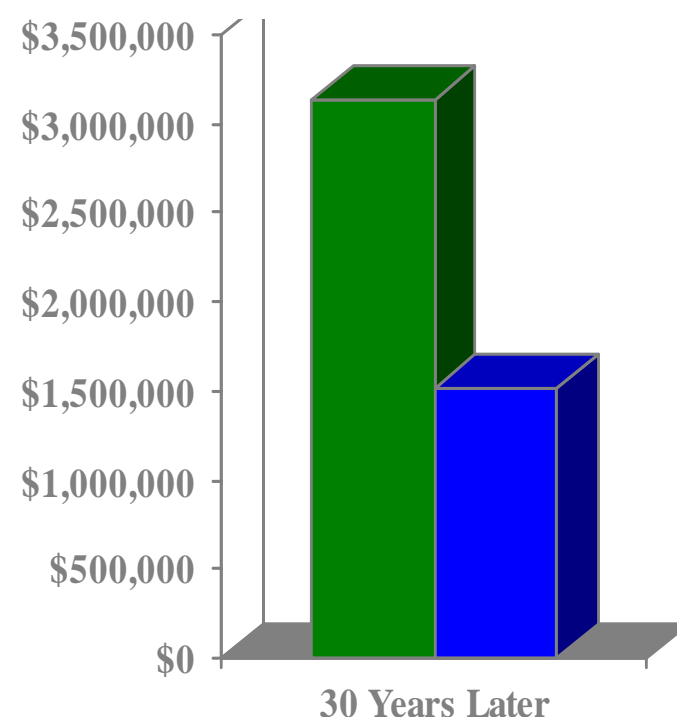
<http://eblawgroup.com>

WHAT CAN MY FAMILY DO WITH THE STRETCHOUT PROCEEDS?

What might this mean to your family? It represents a lifetime income for your loved ones after you are gone. It can pay for things like college tuition, the mortgage payments on a home, or the cost of your granddaughter's wedding. It creates a built in retirement plan for your kids or grandkids. We don't really know if Social Security will be there for your kids or grandkids, but even if it's not, this kind of planning creates a nest egg for your grandkids.

So, if you would like to leave a huge legacy to your children and grandchildren, you need to understand how this works.

COMPARISON OF \$500,000 IRA—RECEIVED AFTER 30 YEARS THROUGH:



IRA PRESERVATION TRUST vs. LIVING TRUST

After 30 Years, the IRA Preservation Trust allowed stretch-out and growth of the \$500,000 IRA to \$3,128,000, which means a loss of \$1,611,000 for the IRA held in a Living Trust, due to the unavailability of stretch-out.

ARE THERE OTHER ADVANTAGES OF AN IRA PRESERVATION TRUST?

You can achieve *better control* of your IRA and *better protection* of your IRA with an IRA Preservation Trust because it can:

1. Control distributions after death (and stop a beneficiary from killing the plan).
2. Compel long-term tax deferral
3. Establish post-death contingency planning.
4. Allow for disclaimer planning by setting up "cascading beneficiaries".
5. Strengthen creditor protection of your IRA assets.
6. Switch between maximum stretch (Conduit) and maximum protection (Accumulation) trust after death, with full benefit of hindsight.
7. Provide for a Trust Protector to enhance post-death flexibility and protection.
8. Help assure proper distribution to your OWN choice of ultimate beneficiaries. In other words, your grandchildren instead of your son-in-law or daughter-in-law.
9. In some cases can even save taxes after the death of the initial beneficiaries.
10. Help control professional management of monies for generations to come.
11. Increase protection for young or vulnerable IRA beneficiaries
12. Leave IRA proceeds to disabled heirs, while protecting eligibility of governmental benefits.
13. Enhance protection of retirement proceeds against divorces; lawsuits; creditors claims; mismanagement; and spendthrift dissipation.
14. Establish a huge legacy in your own name to bless your intended beneficiaries for generations.

The difference between your loved ones having the stretch-out and protection of the IRA Trust, or not, may literally be worth millions to your family!

WHY YOUR LIVING TRUST IS NOT SUITABLE TO HOLD YOUR IRA

A Revocable Living Trust regularly contains provisions which may disqualify it as a designated beneficiary trust, for example provisions for payment of debts, expenses and taxes, accounting for principal and income, and charitable beneficiaries. These provisions will prevent your beneficiaries from using their own life expectancy for calculating RMDs and may force them to use a life expectancy as short as 5 years.

The IRA Preservation Trust has already received a Private Letter Ruling from the IRS stating that it qualifies as a designated beneficiary trust, removing the risk of a 5-year RMD and preventing future loss of protection.

Further, the IRA Preservation Trust, in its very first page, clearly establishes the requirements of a designated beneficiary trust, it is much easier for a custodian to read, understand and implement. When the designated beneficiary trust provisions are buried inside a larger Living Trust, it often winds up with the custodian delegating their decision to their legal department, which can hold up the process of implementing the trust in a timely manner.

The IRA Preservation Trust alerts the beneficiaries to the fact that IRAs have special treatment and makes it less likely that beneficiaries will immediately go to the custodian and cash out the IRA or take other actions that may have adverse tax consequences. The IRA Preservation Trust comes with a checklist of actions for the Trustee and beneficiary to follow, in order to avoid these inadvertent mistakes.



EXAMPLE OF IRA WITH NO STRETCHOUT

Suppose that you died and left your \$100,000 IRA to a 50 year old child. If you had not taken advantage of the IRA Preservation Trust, your IRA might not have been stretched out, and after tax the child would have received only about \$65,000! (even less if your estate was subject to estate tax)

SAME EXAMPLE-WITH STRETCHOUT

But, because you have implemented the IRA Preservation Trust, a 50-year old child or grandchild (who has a 34 year life expectancy), even if we only assume a 7% rate of growth on the IRA is going to receive over \$400,000 dollars, more than six times as much!

If you leave the same IRA to 20-year old grandchild, it will pay out almost \$1.7 million dollars over the remainder of that child's lifetime!

If you leave the same IRA to a 10-year old grandchild, it will pay out more than \$2.8 million dollars over the remainder of that grandchild's lifetime!

So you see, with proper planning, the true value of your IRA may exceed the value of your home; its contents; your vehicles; your savings; your life insurance; and all of your other assets COMBINED! By taking advantage of the new law and of the stretchout opportunity, your family receives many, many times more than they would