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## MoneyLine by Neil Downing



### Some tips for making sure an IRA is passed on to your children

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Q: I just retired. On my retirement accounts, they told me to put “estate” because I have four children. I am wondering if this is correct, or am I going to run into a problem.

— R.O., Warren.

A: You phoned in your question after a previous MoneyLine column about IRAs, so I’m assuming that you have money in one or more IRAs, and want the IRAs to pass to your children upon your death.

What to do? Name your children as beneficiaries of your IRAs. (Make sure that you properly complete each IRA’s beneficiary form, and file the form with the financial institution that serves as the trustee or custodian of the IRA.)

Naming your children as beneficiaries will result in a number of advantages, said Marvin R. Rotenberg, a widely recognized expert on IRAs and other retirement plans.

For example, the IRA can pass directly to your children upon your death. As a result, they won’t have to deal with the potential cost, delays and other issues that may arise in the probate court process.

In addition, your children — as beneficiaries – will be able to stretch out the life of the IRA they inherit.

So, even though a beneficiary must start making periodic required withdrawals from an inherited IRA at a certain point, the beneficiary doesn’t have to withdraw the entire IRA balance.

Instead, the balance can continue to grow over time, on a tax-deferred basis, said Rotenberg, a director of Bank of America’s Personal Retirement Solutions group.

What about naming your estate? “It’s generally not a good idea to name your estate as beneficiary” of your IRA, Rotenberg said in an interview at his office in Boston.

If you name your estate as beneficiary (or if you fail to name a beneficiary), the IRA will have to be processed through probate, and those to whom the IRA eventually passes will miss out on the chance to stretch out the account’s life, he said.

Instead, they'll have to withdraw the account balance more rapidly, said Mark S. LaVangie, a Bank of America retirement specialist who works with Rotenberg.

Q: My wife and I . . . might leave our IRAs to [our] children. We understand the normal progression is that the two IRAs will be placed in the name of the survivor of our marriage. . . . At the death of the second-to-die spouse, we have asked our broker to divide the IRA into two "decedent IRAs," one for each daughter, and assist them in developing a withdrawal plan to minimize the tax consequences (or to maximize the net amount) they can receive from their share of the IRA. If you consider this suitable to make a response in the form [of] a future column, please proceed with our encouragement. . . .

— N.T., Columbia, Mo.

A: You're on the right track, Rotenberg and LaVangie said.

Here's a summary of what you plan to do, based on the description you provided in your e-mail to MoneyLine:

Each of you owns an IRA. You've arranged things so that when one spouse dies, his or her IRA will pass directly to the surviving spouse, outside the probate process.

When that happens, the decedent's IRA will be rolled over to the surviving spouse's IRA. In other words, the surviving spouse will treat it as his or her own; there'll then be one IRA remaining.

When the surviving spouse dies, the financial institution which serves as the trustee or custodian of the IRA will divide the account into two decedent IRAs — one for each daughter.

This will allow each of your daughters to stretch out, over the longest possible period, the life of the IRA each inherits, Rotenberg said.

This will minimize the income-tax consequences, and also give each daughter maximum flexibility, he said. For example, each daughter can withdraw only the required minimum amount periodically from the account, allowing the account to grow, or accelerate withdrawals in any given year without penalty, Rotenberg said.

So, assuming that your broker is well-versed in the tricky rules regarding IRAs, you should be all set — and so should your daughters. Nice work!

**TODAY'S TIP:** The Alliance for Investor Education has links to what it describes as seven of the best available online IRA resources for investors planning how to invest for retirement.

The alliance is a nonprofit organization whose members include financial-related foundations, nonprofit organizations, associations and government agencies.

Use this address to view the group's special page, "IRAs: The ABCs of Planning for Retirement":

[www.investoreducation.org/IRAs](http://www.investoreducation.org/IRAs)

Questions about your money matters? Call us at 1-401-277-7484 and leave a message, or e-mail:

[moneyline@projo.com](mailto:moneyline@projo.com)

Please include your name, home town and home phone in case we need to reach you. Sorry, no personal replies; as many questions and issues as possible will appear here.