



MEMBER: FINRA ■ SIPC



AVOIDING THE TAX TRAP IN RETIREMENT

**A Guide for Looking at Your Retirement
Assets — And Steps You Can Take
Today to Avoid Big Tax Problems
Tomorrow**

Important Information

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Don't Let Your IRA become
An IOU to the IRS!

Avoiding the Tax Trap in Retirement

Most working Americans will spend 30 to 40 years working hard to accumulate a retirement nest-egg through various means—investments, savings, real estate, building a business. This is generally considered to be the accumulation phase of one’s life, and “accumulating” is where most other financial services firms solely focus. But accumulating assets is only half the game. How to structure wise use of your assets during your retirement years is equally important. And reliable guidance in this crucial area is scarce even among the biggest financial services firms.

At Presidential we are taking things a few steps further through educating clients, planning, and obtaining proper 3rd party resources that help give us the tools necessary to not only help grow your hard earned money, but also focus on the retirement phase, or distribution phase of life — and ways to help avoid the tax traps that could seriously erode your hard, decades-long work.

The goal is clearly to make your money last as long as you do ... and without having it wiped out by taxes. We believe managing taxes is a key to successful money management in planning for retirement, during retirement, and providing a legacy. Tax issues involve some of the most complex regulations and IRC rules covering retirement accounts. In fact, you will see much of what we recommend will have to do with mitigating taxes through both the accumulation or growth phase through the retirement and distributions phases of your life.

The final — but critical — thing we consider to be extremely important is to help people avoid outliving their money and to make sure that the planning you do will pass more of your hard-earned wealth on to your family — and to keep Uncle Sam from being first in line to inherit your retirement funds.

Tax Mitigation/Products

When considering taxes, remember there are actually two Uncle Sams to contend with. The familiar “Income Tax” Uncle Sam, and then “Estate Tax” Uncle Sam when a legacy transfers to the next generation.

IRA (INDIVIDUAL RETIREMENT ARRANGEMENT)—Yearly contributions to an IRA can be taken as a tax deduction. (Income Limits Apply) Growth in the account is tax-deferred, and all withdrawals are taxed at ordinary income rates, both Federal and State. For 2009, the contribution limits are \$5,000. Individuals 50 and over may contribute an additional \$1,000 “Catch Up” contribution. Withdrawals from an IRA are penalty-free upon attaining age 59 ½. Upon attaining age 70 ½, there will be a yearly mandatory withdrawal imposed, or “Required Minimum Distribution”. Failure to withdraw at least the required minimum amount will result in a penalty of 50% of the amount which should have been withdrawn. You must take the distribution whether you need to use the money or not.

ROTH IRA—Yearly contribution limits are the same as a Traditional IRA. However, there is no up-front tax deduction allowed. Qualified withdrawals from a ROTH IRA are generally Federal and State tax free. ROTH IRAs have no mandatory withdrawals at age 70 ½. Traditional IRAs can be converted to ROTH IRAs. Income limits restrict conversions until 2010. ROTH IRAs and ROTH Conversions can be used to mitigate or eliminate the risk of higher tax rates in the future, and may also reduce taxes on Social Security Income. Consider a complete ROTH Conversion Analysis as a valuable part of your long-term planning.

BENEFICIARY IRA—Up until 2002, beneficiaries of IRAs or Company Retirement Plans, particularly non-spousal beneficiaries, had few options when inheriting these assets. Often times the funds would be heavily and immediately taxed, leaving little but crumbs for the intended recipient. Today, with proper administrative provisions put into place and executed to a tee, an inherited IRA can provide a substantial amount of income to a

beneficiary for decades to come.

IN-SERVICE DISTRIBUTION—(ISD) While company plan administrators don’t make it a priority to advertise this feature to employees, your money may not be stuck in your 401k plan until you retire. Provisions in your 401k’s Summary Plan Description in many cases allow you as an employee to transfer part or all of your 401k funds to an IRA wherever you choose, while still employed by the company. The In-Service Distribution feature does not generally put a halt to your 401k or future contributions. Since many 401k plans offer limited choices of investment, and almost no flexibility outside of company stock or mutual funds, this can be an effective way to diversify investments to different areas during your working years.

TAX-DEFERRED ANNUITIES—Some annuities have evolved to the point where the benefits of principal, income and inflation protection make the tax-deferral aspect secondary. For many investors, placing IRA monies into Annuity contracts makes more sense than using non-taxable monies. While the myriad of differing options, features, and fear of surrender charges can seem very complex and intimidating, annuities offer many benefits that no other investment can match.

Rule 1035 — A 1035 Exchange allows exchanging annuities without creating a taxable event.

LIFE INSURANCE—Of all the options designed to pass tax-free funds to your loved ones, Life Insurance may well be the most simple and powerful leveraging tool available. Many life insurance policies can also offer benefits beyond a payment upon death. A properly structured and correctly funded and managed policy can supplement retirement income, and provide access to tax-free lump-sums when needed.



(REIT) REAL ESTATE INVESTMENT TRUST— REITs generally hold multiple and differing real estate assets and can vary widely in size, objective, geographic location and income payout. REITs can allow investors to participate in larger scale institutional class real estate investments for a relatively small commitment. In many cases, part or all of the income from REITS may not be taxable, although capital gains usually are.

TENANT-IN-COMMON (TIC) PROPERTY INVESTMENTS/1031 EXCHANGES—These programs allow accredited investors to directly participate in the ownership of a specific property. Investors enjoy the tax benefits of direct real estate ownership without incurring the headaches associated with being a landlord. Properties utilized are generally stable Class A office or multifamily holdings. Income from TIC Investments can be greatly tax-advantaged, while capital gains taxes can be deferred for an entire lifetime (through continued ownership of qualifying properties) and potentially eliminated upon transfer (at death) to the next generation. Many investors who sell highly-appreciated investment properties choose to utilize these professionally managed programs to maintain exposure to real estate and defer payment of taxes while eliminating the time and energy drain of day-to-day property management. Others choose to invest seeking what has historically been a stable and growing income stream. IRA or Retirement Plan funds cannot be utilized for TIC Investments.

NUA—NET UNREALIZED APPRECIATION This often-missed provision of the tax code can provide significant tax-savings if you own highly appreciated company stock in your 401k Plan. Rather than rolling the stock over to an IRA upon retirement, thus eventually paying ordinary income tax on the entire value of the stock, the shares can instead be transferred to a taxable account. The result—you'll pay ordinary income tax on the cost basis, or the amount you paid for the shares. But upon sale of the shares, you will pay long-term capital gains rates, currently at 15%, much lower than most income tax brackets. This rate applies even if you sell the shares immediately.

IRD—INCOME IN RESPECT OF A DECEDENT If you have inherited money, and paid both Income Tax and Estate Tax on your inheritance, chances are you qualify for this little-known and almost never utilized tax break. While many Estate Attorneys and CPA's are unaware of, or shudder at the

prospect of having to do an IRD calculation, it is not as complicated as it's often made out to be. Simply put, the IRS doesn't think it's fair that you pay both Estate Tax and Income Tax on the same inherited asset. In most cases, a large IRA or Retirement Plan in the estate will trigger the availability of the IRD Deduction. If you think you may have missed it, there is good news. The IRD never expires and you can go back up to 3 years and amend your tax returns to take advantage of it.

WINDFALL INCOME AMOUNTS—The tax code offers very few avenues to mitigate the taxation on income or gains already realized. Sale of real estate or a business can create a sizable tax event, as can a large bonus. ROTH conversions can also fall into this category. However, another almost unknown area of the tax code — the ability to write off intangible drilling costs — can sometimes provide a partial solution. A direct investment into certain domestic energy development programs can provide a sizable tax-break. An example works best in this case: Susan B. Taxpayer has \$100,000 of windfall income in March of 2008. Before December 31st, 2008 she invests the \$100,000 into a qualifying energy program. She will be able to directly offset 90-100% of the \$100,000 income and not pay any taxes on it. The offset can be used against almost any type of income, passive or active, and can be utilized over a 5 year period. You may invest more or less than the \$100,000. What happens to your \$100,000 investment? If the program is successful, you will receive royalty checks from the production of the resource. The amounts and duration of income are not guaranteed and can vary, of course. However, some of these programs have been paying monthly income for over 20 years. The income from the program will also have tax-advantaged characteristics.

ESTATE PLANNING—Wills, Trusts & Other Documents In many cases, a trust or other officially drafted documents can provide protection against creditors, litigation, and estate taxation. Lack of attention to family dynamics and the possibility of unseen future pitfalls can create not only loss of estate value to taxation and other sources, but perhaps more disturbing — family discord and resentment. A well thought out trust or other instrument drafted by a qualified estate planning attorney can help keep your nest egg and your family's finances intact for years to come.

When to Begin Taking Social Security

Increasingly, the trend is to wait. Although Social Security retirement benefits are generally available starting at age 62, the longer you wait to sign up for them – up to age 70 – the higher your benefit level. And the importance of your decision is significant: taking money early may lock you into a smaller monthly check that you will live with the rest of your life. Waiting – even if it means working longer – can provide a larger monthly income later in life when it would be the most difficult to augment. As with many things in life, the answer is never simple. However, as mentioned above, the trend for many people is to wait to make their initial claims.

Here are some numbers:

2. Taking the Social Security benefits at age 62 actually cuts the annual benefit by almost 25%, when compared to someone who waits until age 66 (if the person was born between 1943 and 1959). The same is true for people who wait to take benefits until age 67 if they were born in 1960 or later.
3. The earlier a person starts to take Social Security benefits, the lower their payments will be. But by waiting four or more years to start taking Social Security payments, the monthly payout amount will increase substantially for those that can afford to wait.
4. People can still work and receive Social Security benefits, but money that is earned

Timing of Social Security Benefits*						
Begin Collecting Benefits	Monthly Check	70	75	80	85	90
		You would receive...				
Age 62	\$1,200	\$115,000	\$187,200	\$259,200	\$331,200	\$403,200
Age 66	\$1,600	\$76,800	\$172,800	\$268,800	\$345,600	\$460,800
Age 70	\$2,200	\$26,400	\$132,000	\$264,000	\$396,000	\$528,000

*For illustration purposes only. Individual benefits and longevity will vary.

So, what are some of the issues you should consider when making that important decision? Here are a few:

1. In 2008, an estimated three million Americans will turn 62 years of age, and thereby become eligible to start receiving Social Security benefits. But what many of these Baby Boomers do not realize is that starting to take Social Security benefits at age 62 could actually reduce the amount of benefits they receive. Here are some of the options that can help you get a bigger retirement fund in the future.

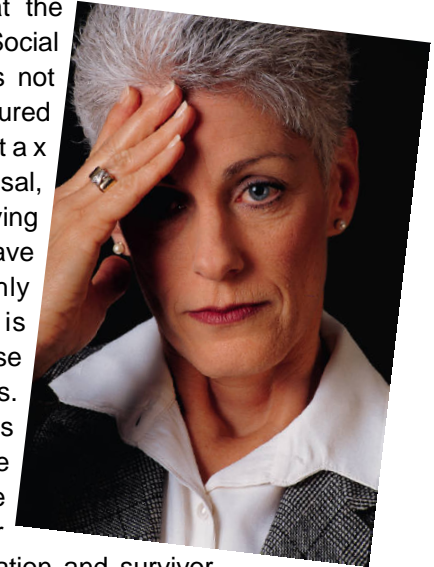
from work can reduce monthly benefits received before one reaches “full retirement age.” But for people who have reached full retirement age, there will be no reduction in benefits due to income from employment.

5. Additionally, combining Social Security with work income can mean that there will be a change in the taxation of those benefits. Up to 50% of Social Security benefits are subject to income taxes for individuals with an adjusted gross income plus half social security benefits over \$25,000, but not more than \$34,000. For married couples filing jointly those numbers range from \$32,000 to \$44,000. But for those individuals earning

more than \$34,000 a year with half Social Security benefits, up to 85% of those benefits are taxable. (Or for married couples earning more than \$44,000 per year.)

- Knowing that up to 85% of Social Security income may be taxable, it is important to look at other sources of income, such as withdrawals from IRA accounts, or other qualified plans. Money in such accounts has the ability to grow tax deferred during the accumulation phase, but upon withdrawal, those funds are entirely subject to income taxes. Currently, the highest federal income tax bracket is 35%, while as much as 85% of Social security may be subject to that tax. If an individual does not need to withdraw

- Many experts say that the value of delaying Social Security payments has not been properly measured because the tax advantages and spousal, survivor and cost of living adjustment benefits have not been thoroughly considered. This is especially true for those with higher incomes. Social Security benefits will probably become more and more valuable, due to their tax-favored status, inflation and survivor



Considerations		
<p>Your health – If you are in better-than-average health it might be best to wait. If you are ill or likely to get ill, it may be better to start taking it right away</p>	<p>Your gender – Women get the same benefits as men. But they live longer, too. Women are therefore more likely to live longer and benefit more by waiting and receiving a larger</p>	<p>Working – Up to “normal retirement age,” your benefits may be significantly reduced. So, unless your earnings are small, you may be better off waiting</p>
<p>If you are married – If you accept a reduction in benefits by taking them early, those adjustments carry forward to the spousal benefit. This is important especially if ½ of your benefit is greater than his/her own earnings</p>	<p>Income level – Taxable income above a certain limit will also make portions of your Social Security check subject to taxation –potentially as much as 85%</p>	<p>Investments and interest rates – In a strong investment environment or in a low interest rate environment you may be able to get returns that would make up the difference between waiting or not. However, most conservative investments are unlikely to perform as needed. And riskier returns would not be</p>

money from their IRA, that money can continue to grow tax deferred for many years, and that compounding can affect the tax differential. Most IRAs require individuals to start taking minimum distributions at age 70½ in order to avoid a 50% penalty. On the other hand, taking withdrawals from IRAs can reduce those mandatory distributions, potentially keeping more Social Security benefits tax free.

protections, and, importantly, longevity protection.

- There are no absolute rules as to when an individual should retire or when they should start taking their Social Security benefits. There are many variables to consider, and it is important to understand the tax benefits and impact of timing on the overall return you can get from Social Security.

9. The Center for Retirement Research at Boston College has indicated that a good strategy for couples is for the wife to start taking Social Security benefits at age 62 and for the husband to wait until age 66 to take his. The reason for this is that, on average, men earn more and die younger. This would allow the wife to take her benefits at age 62 and inherit her husband's larger check later on.
10. There are a number of things for you and your financial advisor to consider when trying to decide when to take your Social Security benefits, including: Does your family have a history of longevity? How long do you want to keep working? Are you currently in good health or have a record of illness? Do you have the income you will need to support you if you decide to delay taking your benefits? Will other members of your family qualify for benefits with you?

It is important to answer these and other questions before you start taking your Social Security. Knowing the tax and financial implications is important to your future and to your retirement.



Often-Missed Tax Break

Net Unrealized Appreciation

— NUA —

If you have company stock as part of your retirement plan you may qualify for some significant tax advantages

Net unrealized appreciation (NUA) is a little-known opportunity provided through the federal tax code that could potentially save you thousands of dollars in income tax – if your company's stock has appreciated significantly in value while you have owned it.

HERE'S HOW IT WORKS: Let's say you have worked at a company for years, and as part of your 401(k) program your investments have included shares in your firm's stock. NUA provisions of the tax law allow you – if you follow the rules precisely – to separate out your company stock from your 401(k) investments and possibly pay a lower tax rate. This could ultimately save you tens – perhaps hundreds – of thousands of dollars. The secret is NOT blindly rolling your company stock into an IRA when you retire or leave your job.

Keep in mind that a 401(k) is a tax-deferral structure – when you begin drawing retirement income from your plan you will pay ordinary income tax rates on it. Which means 25%, 35% or possibly more of your withdrawal is owed to the government. However, the current tax rate on long-term capital gains is far lower: Only 15%.

Here is a brief explanation of what constitutes NUA. Say shares of your company's stock cost you \$10 and are now worth \$100. The \$90 difference is called net unrealized appreciation.

NUA is not taxed until the stock is sold, and then at long-term capital gains rates, even if the stock is sold immediately. To qualify, the entire plan balance must be distributed in one tax year and the plan balance must be ZERO by the end of the

tax year. The company stock shares must be distributed in a lump-sum to a NON-IRA Account.

Other plan assets – cash, mutual funds, etc., can be rolled into an IRA. In addition, the lump-sum distribution must occur following a “triggering” event. These include (1) job separation/termination, (2) reaching age 59½, (3) death, or (4) disability.

Another often-missed but highly important NUA factor is that heirs – both spousal and non-spousal – can also take advantage of this tax break. If the plan were to force distribution of all assets to a non-spousal heir, taking advantage of NUA can substantially reduce tax consequences. Non-spousal heirs may also be subject to and should be aware of additional timing deadlines that must be adhered to in order to facilitate not only the NUA tax break, but also to mitigate taxation of other assets contained in the plan.

NUA may not be for everyone. Here are a few of the considerations to keep in mind.

- Determine before making the decision of using NUA or rolling the shares into an IRA whether the shares make up a significant amount of your net worth, and whether your main goal is tax treatment or diversification.
- **Remember, once the stock is out of the retirement plan, you will owe income tax on the cost basis of the stock, even if the stock is not immediately sold.**
- Furthermore, assets held in an IRA may have greater creditor protection than non-IRA accounts.

Finally, in case your employer is not familiar with the NUA tax strategy, as many are not, you may have to do some educating of the HR department.

As with all aspects of retirement plans and tax considerations, even small errors can have substantial and enduring consequences. We recommend working with competent professionals, and we would be pleased to recommend professionals with specific expertise whom we have found to be knowledgeable, competent and pleasant to work with.

COMPARISON OF COMPANY STOCK TREATMENT
Knowing what to do can make a big difference

Not Rolling NUA into IRA		Rolling NUA into IRA	
35% income tax on original cost of \$200,000	\$70,000	35% tax on current value of \$1 million IRA (spread over withdrawal period)	\$350,000
15% long-term capital gains tax on \$800,000	\$120,000		
Total Tax	\$190,000	Total Tax	\$350,000
Possible NUA <u>tax savings</u>	<u>\$160,000</u>		

Often-Missed Tax Break

Avoid Possible Double Taxation

— IRD —

Income in Respect of a Decedent is one of those little-known estate tax terms that typically only attorneys and tax experts learn to love. But IRD assets make up an increasingly large share of estates, and failure to plan for them can cost an estate and its beneficiaries a lot of money.

Believe it or not, the IRS allows a little known income tax deduction that is available to many IRA beneficiaries. However, most IRA beneficiaries are not aware of it and miss out on thousands of dollars in tax deductions every year.

For example, if you inherit an IRA from your father the first thing you want to find out is whether or not Federal estate tax was paid on the IRA in your father's estate. If the answer is no, then you are not eligible for this tax deduction, since the IRA was not subject to both estate and income tax. However, if there was Federal estate tax paid in your father's estate, then you may have yourself an income tax deduction.

You, as the IRA beneficiary, will claim the deduction on your personal tax return (Form 1040) as a miscellaneous itemized deduction on Schedule A. Although most deductions in the miscellaneous itemized deduction category are reduced by 2% of your Adjusted Gross Income (AGI), this one is not.

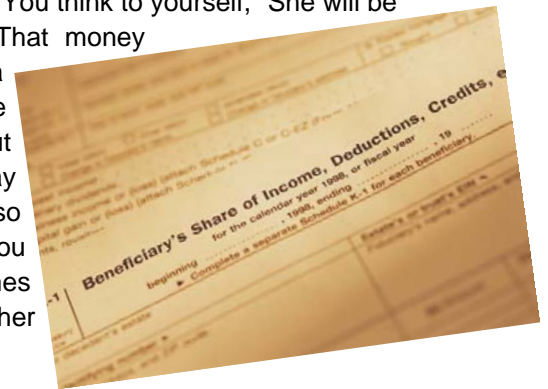
Background

This deduction commonly known as the "IRD Deduction" or the "Estate Tax Deduction" is also not subject to the Alternative Minimum Tax. The IRD stands for Income in Respect of a Decedent. This is a tax term. IRD items are those items that, like an IRA, when you inherit them and withdraw

them become subject to income tax.

Some gifts come with strings attached

You bequeath a substantial portion of your estate to your niece. You think to yourself, "She will be so pleased. That money will make a big difference to her." But your niece may not think so highly of you when it comes time to pay her income tax.



Generally, inherited property isn't included in your heirs' taxable income. But some assets consist of income "in respect of a decedent," and, if your heirs receive an IRD asset, they will be subject to income tax on it. But there are steps one can take to reduce IRD impact so your beneficiaries don't receive an unwelcome gift when you die.

Recognize your IRD assets

Essentially, IRD is income a decedent earned and was entitled to receive but never actually received before his or her death. A typical IRD asset is the decedent's last paycheck for wages not paid until after death. Because the decedent's tax year closes on his or her death date, these funds aren't included in the decedent's income on his or her final tax return. As an item of IRD, the paycheck is included in the decedent's estate for estate tax purposes and is taxed as income to whoever receives it.

IRAs and other qualified retirement plans are other common examples of property subject to IRD when received by a beneficiary. Some

additional types of IRD include the decedent's:

- Unpaid bonuses,
- Deferred compensation benefits
- Uncollected proceeds of a sale made before death
- Accrued but unpaid interest, dividends and rent
- Unpaid fees and commissions, and
- Uncollected payments on an installment note

IRD retains the same character in the recipient's hands as it would have had in the decedent's hands had he or she lived to receive it. Items that would have been ordinary income to a decedent are ordinary income to the estate or other recipient.

Avoid surprises

Unlike most assets included in an estate that receive a step-up in basis — such as stock with a low income tax basis or a personal residence — IRD assets don't receive a new basis at death. So they are subject to both income and estate tax. This double tax burden can surprise beneficiaries who were unaware that they owed income tax on those assets.

As IRD assets make up an increasingly larger share of estates, failure to plan for them can result in an unintended outcome. For example, assume you leave your house to your son and your IRA to your daughter. Even if both assets have the same market value at your death, your daughter may end up receiving much less because she must pay income tax on the value of the asset she receives.

Your son's income tax basis in the house he inherited is adjusted upward to the house's fair market value on your death date. If he sells the house immediately, he may not owe any capital gains tax. But your daughter will have to pay income tax on each distribution she receives from her inherited IRA. The income tax she will owe effectively reduces the total amount she inherited.

When planning for IRD assets, be certain your beneficiaries can defer the income tax payment as long as possible. If you want to give a specific



amount of cash to a beneficiary, be sure your estate has enough non-IRD assets to fund the gift. If IRD assets have to be used to satisfy the bequest, your estate will owe income tax on the amount of IRD distributed.

Consider the potential deduction

Although a recipient must include IRD in his or her income, an income tax miscellaneous deduction is available based on the estate tax attributable to the net value of the income item. For example, assume you inherit a \$2 million IRA from your parents who have a total estate worth \$4 million. If your parents died in 2008, their estate is calculated based on all taxable assets, including IRD assets such as the IRA. The federal estate tax due is approximately \$1,185,000. Next, the federal income tax, excluding the IRA, is calculated, which reduces the estate taxes due to \$225,000.

The \$960,000 difference between the two amounts represents the maximum IRD income tax deduction that you can take against the IRA distributions your parent gave you. Because IRA payments typically are spread over a period of years, such as your life expectancy, the maximum deduction also is spread over the same period. Each year you'll deduct a portion of the IRA distribution with a portion of the IRD

deduction. As you might expect, this process requires detailed record keeping.

For individual taxpayers, the deduction is available only if they itemize but isn't subject to the 2% adjusted gross income floor for miscellaneous deductions. Taxpayers in the upper tax brackets could lose out on some of the benefits of the deduction because of the 3% phaseout of itemized deductions. Of course, no estate tax means no income tax deduction.

Expand your focus

When planning your estate, expand your focus beyond estate tax reduction by considering the effects of IRD. By properly allocating assets that will be treated as IRD, you can minimize the impact of the double taxation on your beneficiaries.



Important Decisions About Your Financial Future

You may be one of the millions of Americans who change jobs or retire each year and receive a distribution from your employer's retirement plan. Naturally, you will be faced with many questions that may dramatically affect your financial future, depending on the decisions you make. Perhaps the most important decision you will have to make is determining when you will access this money. If you don't use this money right away, you have a significant opportunity to continue the wealth building begun by you and your former employer. If you do need immediate access to the money, you should be aware that your withdrawals will be considered income for tax purposes in the year they are received.



BE PREPARED TO PAY TAX ON YOUR DISTRIBUTIONS — Spending this financial windfall may seem attractive, but it could be costly to your future financial security. You will have to pay ordinary income tax and if you are under age 59½ (55 if due to separation from service), you may also owe a 10% premature distribution tax. Special tax treatment, such as 10-year averaging may be available if you meet

certain IRS requirements. These special tax methods may enable you to pay less in taxes than would be due if ordinary income taxes apply. Even with these special tax treatments, however, you will still lose the opportunity for tax deferral on the future growth of your retirement assets. This can have a dramatic effect on the financial resources available to you during your retirement years, so make your decision carefully. 10-year averaging may be available to individuals born before January 1, 1936, who meet specific IRS requirements.

USE AN IRA ROLLOVER TO CONTINUE DEFERRING TAXES —

An IRA Rollover permits you to defer taxes on your retirement plan distribution, thus allowing your money the potential to grow faster than in a regular savings account. Most distributions from qualified retirement plans can generally be rolled over into a Traditional IRA. Some exceptions include payments over life expectancy, installment payments for 10 years or more, required distributions after age 70½, and after-tax employee contributions. Once you roll over your distribution to an IRA, you have flexible distribution options that enable you to control both your income stream and when you pay taxes. If you need to withdraw funds before age 59½, you may be able to start distributions to meet your financial needs, while avoiding IRS penalties. If deferring taxes with an IRA Rollover is right for you, ask your employer to send your distribution directly to your Traditional IRA. If the distribution is paid to you instead, generally your employer is required to withhold 20% of the distribution for federal income taxes. If the 20% is withheld, you can still avoid taxes on the entire distribution if you roll over the amount that you received plus the amount of the withholding within 60 days. Presumably, you will get a refund of the withholding amount when you file that year's taxes.

EXPLORE TAX-FREE INCOME OPTIONS

If you roll your retirement plan distribution into a Traditional IRA, you may want to explore the tax-free income opportunities available with the Roth IRA. Your modified adjusted gross income must be \$100,000 or less and you must be either single or file a joint tax return with your spouse to be eligible to convert your Traditional IRA to a Roth in the current tax years. However in 2010 all restrictions are lifted and the IRS is providing one of the largest tax breaks in history to help people convert from a tax infested IRA account to a Tax free Roth and pay taxes spread over a 2 or even 3 year period. Conversions in 2010 can be reported equally on 2011 and 2012 tax returns, or spread out over 2010, 2011, and 2012. Either way, full payment of that tax is delayed until 2013. All the growth in the account over this 2+ years is tax free. Your Financial Advisor can help you determine if the Roth IRA is right for you. You should consider such factors as your current and future tax rates, when you plan to use the money in the IRA, and your investment return when making your choice. Presidential can provide a Roth conversion analysis for you before you make any decisions.



RETIREMENT INVESTMENT PLANNING

After you decide how to handle your retirement plan distribution, the next step is to decide what types of investments (stocks, bonds, mutual funds, etc.) should be used in your portfolio. Your Financial Advisor will meet with you to discuss your retirement income needs and your attitudes toward investment risk. From that, and other information, a flexible and dynamic retirement investment strategy can be developed. And because your needs and economic conditions change over time, your Financial Advisor can review and monitor your investments on an ongoing basis.

WE CAN HELP YOU DECIDE

We understand the significance of your retirement planning decisions, and we're here to help you and your personal advisors every step of the way. Call your Financial Advisor today to schedule your own retirement planning consultation.

Multi-Generational IRA

To create a Multi-Generational IRA means to create an option — without giving up control for you or your heirs — toward building family wealth through tax-sheltered compounding

The “Multi-Generational” IRA is not a product, but a process. Don’t go looking for it at your favorite big-box financial services outlet, however, because you are likely to get one of two answers: (1) “We don’t know what you’re talking about...” or (2) “I think maybe we can do those??...” But will it be done right?

This is an area in which many banks, mutual fund companies, and brokerage firms fail to understand how to set up the true multi-generational aspects of an IRA, much less be willing to dedicate the time and expenses required to properly educate and train countless tellers or call center agents on the infinite details of the process. Most simple off-the-shelf stretch plans stop at the first generation of heirs and leave grandchildren and other potential beneficiaries unaddressed. The possibility of a meaningful legacy is converted to a tax-bomb that explodes and leaves little of the account balance intact.

Making an IRA multi-generational means that a beneficiary can keep an IRA growing tax-deferred (or in the case of a Roth IRA, tax-free) for as long as the tax code allows. And due to current and revised IRS rules, a properly structured inherited IRA can grow for a vastly extended period of time.

In order to preserve the stretch option, all the pieces must be put into place during the lifetime of the IRA owner. Once the owner of the IRA dies, there is nothing that the beneficiaries can do to continue the stretch if the IRA owner has not planned properly. They cannot go back and

change decisions (or lack of them) after a person’s death. The IRS rarely allows “do-overs” to correct mistakes.

IRS rules do allow non-spouse beneficiaries to stretch out distributions, but in many cases, company retirement plans do not. The IRS will allow a non-spouse beneficiary to directly transfer company plan funds to an inherited IRA. However, company plans are not required to permit such transfers at this time. A non-spouse beneficiary can never roll over an inherited company plan or IRA to his or her own IRA. Furthermore, after the plan owner passes, many plans will cash out to the beneficiaries in five years or less, even if one’s spouse is the beneficiary. The spouse does have the advantage of being able to roll that inherited money over to his or her own IRA and then name new beneficiaries. While this may initially seem like an attractive and simple option for a spouse, it may not always be the best option and can in some cases leave the spouse vulnerable to penalties.

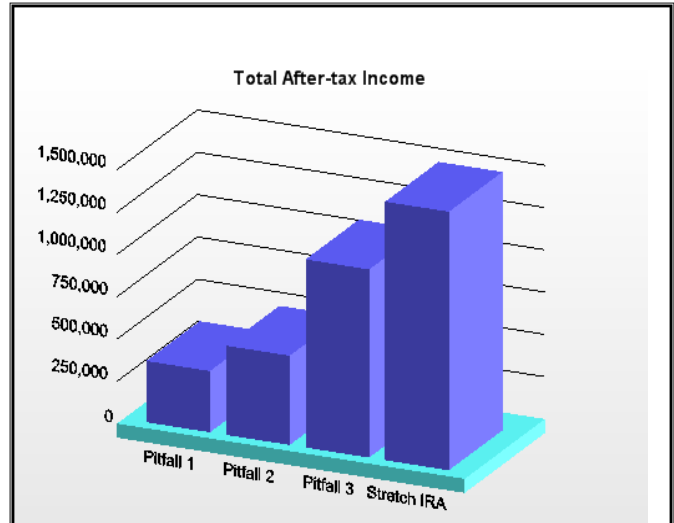
You may be wondering, Why aren’t more company plans friendly to this process? If two of the most confiscatory organizations in existence — congress and the IRS — will allow every American to take advantage of this tremendous compounding plan, why wouldn’t my company’s



401k allow it? The answer is fairly simple: time and money. The harsh reality is that when you retire or pass away, you are no longer an asset to your company and they likely have little interest in you or your family. It is much easier for them just to cash your heirs out than to take on the responsibility of what could amount to decades of distributions. This is but one of the reasons why in most cases-Prudential Brokerage believes rolling over your 401(k) or other company plans to an IRA as soon as you retire is a better choice for you and your family. Keep in mind, not all IRA custodians are created equal. It is NOT mandatory that an IRA provider offer or allow any or all of these benefits any more than a company plan is mandated to do so. Choose your IRA provider wisely!

It is critical that your IRA have “designated” beneficiaries. IRS rules clearly dictate that the stretch option exists only if you have specifically named heirs. Note that beneficiaries named in a will or trust will NOT receive “designated” status. It is also important for every beneficiary to name his or her own beneficiaries as soon as they inherit. This will ensure that someone is designated to continue the schedule if that person dies early. If there is no subsequent beneficiary named, the IRA may pass to the estate and the stretch can be forever lost.

If executed correctly, the Multi-Generational IRA can supercharge your retirement savings into a powerful wealth building device. Instead of your IRA being put to rest in short order after you are, it can provide assets and income to your family for decades to come. It is important to understand that you are not carving out a portion of your retirement assets to accomplish this. You always retain full control of the account and assets within, and may choose to spend down the entire account during your lifetime. But who do you want standing first in line when you’re done using the money? Your children and grandchildren? Or your uncle? (Uncle Sam!) If you didn’t pick option two, then a Multi-Generational IRA is a must-have tool for your planning agenda.



- Pitfall 1:** Spouse takes lump sum distribution
- Pitfall 2:** Spouse takes RMD; Next generation beneficiaries take lump sum distribution
- Pitfall 3:** Spouse takes RMD; Next generation beneficiaries forced to take distributions based on the life expectancy of the oldest beneficiary
- Stretch IRA:** Properly set up & executed distribution plan

Assumptions:

- Current Account Balance-\$300,000.00
- Annual Rate of Return for entire illustration-6%
- Owner is age 63 and dies at age 81
- Spouse is age 60 and dies at age 84

Beneficiaries:

- Son-40%-Current age-36
- Daughter-40%-Current age-33
- Grandson-10%-Current age-10
- Granddaughter-10%-Current age-7
- Owner, Spouse, and Beneficiaries take only required minimum distributions each year based on each individual's separate life expectancy.
- Illustrated from 2008-2084



— Roth IRAs —

Roth IRAs are perhaps the single best gift that congress has ever presented to the American people. Roth IRAs let us build retirement accounts that can, over time, grow significantly and remain income tax free. The only catch is that one must pay the income tax up front. While that may sound imposing, when it comes to retirement planning and protecting your accounts, keep your focus on the “big picture.”

The Roth IRA can be looked at as the opposite of traditional IRAs and other tax deferred retirement accounts, like 401(k)s. With tax deferred accounts you get a tax deduction when you put funds into the plan, but the money is taxed when the funds are withdrawn. Roth IRAs, however, are taxed when funds are put in, and you get no deduction, but all future growth and withdrawals are tax free, not only to you but to your beneficiaries as well.

While a current tax deduction will save you money in the short term, withdrawals from earnings from a traditional IRA are eventually subject to taxes. Most people believe, probably incorrectly, that they will be in a lower tax bracket after they retire, and therefore will be paying a lower tax rate when they withdraw funds. In reality, many people may be in a higher tax bracket after they retire because they will have retirement income, Social Security as well as their investment income. And there is always the possibility of higher federal tax rates as well. Because of this, Roth IRAs can save more money in the long run because withdrawals of earnings are, and continue to be, tax free to you and your beneficiaries. The only requirement is that you maintain your Roth IRA for a minimum of five years and not take distributions until age 59½. As with traditional IRAs, withdrawals can be made prior to attaining that age, but will incur a 10% penalty (with some exceptions, i.e death, disability, education or medical expenses, or to use to buy a first home).

Additionally, Roth IRA holders are not subject to RMDs (Required Minimum Distributions) or RBDs (Required Beginning Date) restrictions that are associated with traditional IRAs. Money in a Roth IRA need never be withdrawn, if you don't want to, even after age 70½. And with a Roth IRA you can let that money grow, or even make contributions, after age 70½. That can't be done with a traditional IRA. Only when one dies and the money is left to a non-spouse must withdrawals begin, because beneficiaries are subject to required minimum distributions. But with Roth IRAs the RMDs are almost always income tax free to beneficiaries.

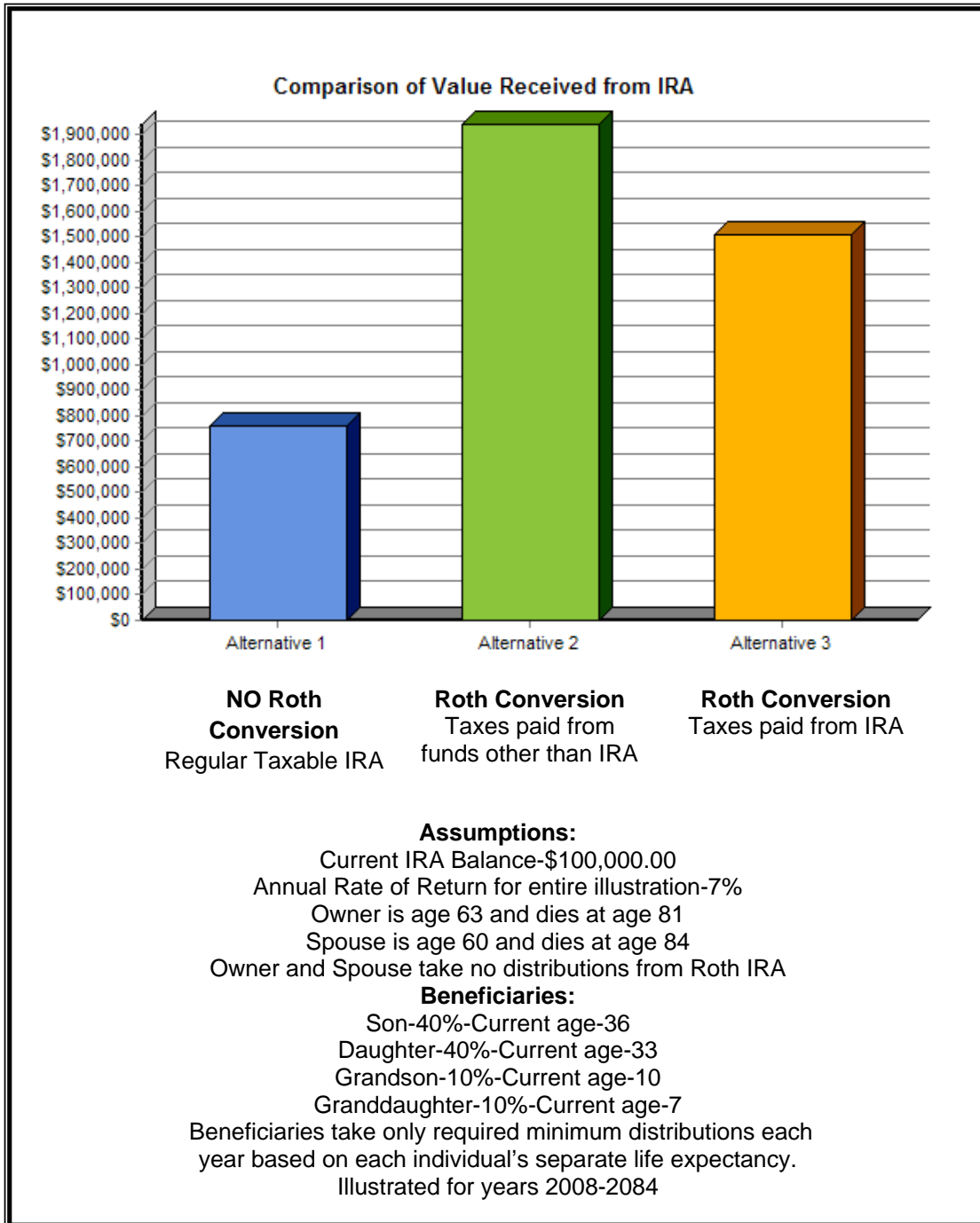
There is a limit to the amount one can contribute to a Roth IRA. For 2010, the limit is \$5,000 if your yearly income is below \$105,000 (for single taxpayer) or \$167,000 for married couples filing jointly.

The Tax Increase Prevention and Reconciliation Act, or TIPRA, now allows everyone the ability to convert their traditional IRAs to

Roth IRAs as of January 1st, 2010 when the government permanently removed income and filing status restrictions. People will still have to pay the tax on the conversion going from a traditional IRA to a Roth, but there is a payment plan that is designed to encourage people to convert.

Generally, if a Traditional IRA is converted to a ROTH IRA, the conversion income would be taxed in the year of the conversion. But in 2010 the rules are different. Income created by conversions done in 2010 can be either accounted for 100% in 2010 OR split 50/50 between tax years 2011 and 2012. If the 50/50 option is chosen, the prevailing tax rates for 2011 and 2012 will apply. If the funds in the ROTH IRA must be used to pay the taxes, an investor may have the ability to grow half the money tax-free for up to 2 1/4 years, and the other half for up to 3 1/4 years before the taxes are due.





Each IRA conversion will vary based on IRA value, ages of designated beneficiaries at time of inheritance, etc. Please request a personal ROTH Conversion Analysis to determine if it is right for you and your family.

Must-know IRA Rules and Facts

Test your IRA knowledge. Here are some critical areas that you – or your financial adviser – need to understand and have under control

1. IRS reporting requirements. The IRS will know which IRA owners have required distributions. Make sure you take RMDs to avoid 50% penalties.
2. IRA distribution basics. 70½ rules – which age do you use? For example, if you turn 70½ by 6/30/2009, you use 12/31/08 IRA balance to calculate RMD (required minimum distribution).
3. 5 year rule confusion - The 5 year rule only applies if the owner dies before the required beginning date (RBD) and there is no designated beneficiary. The entire inherited IRA must be withdrawn no later than the end of the IRA owners fifth anniversary of death.
4. No designated beneficiary? The longest possible distribution period for the IRA would be 15.3 years.
5. Creditor protection for Keoghs - no protection if no employees. There is no creditor protection under ERISA if your company has no employees and beneficiaries cannot stretch a Keogh.
6. Year of death distribution. Who takes it? The beneficiary takes the year of death distribution.
7. Medicaid treatment of retirement account - Roth IRAs are always an available resource because Roth IRA owners have no RBD and no RMD.
8. IRAs don't pass through wills; they pass through IRA beneficiary forms. If an IRA does pass through a will, the IRA will be paid out according to rules that apply when there is no designated beneficiary.

9. There are two different 5 year rules for Roth IRAs - one for tax-free distributions and one for penalty-free distributions.

10. QDRO's do not apply to IRAs. They only apply to qualified plans. In divorce, IRAs are split according to the divorce agreement, not a QDRO. Spousal waiver does not apply to IRAS; it only applies to qualified plans.



11. A non-spouse beneficiary cannot do a rollover. The sixty-day rollover rule does not apply to non-spouse beneficiaries. Non-spouse beneficiaries can only transfer inherited IRAs via direct (trustee-to-trustee) transfers.

12. Improperly titled accounts can lead to significant and unnecessary taxation.

13. The 10% penalty exceptions for education and first time homebuyer apply only to distributions from IRAs - not to plans such as 401Ks.

14. IRAs with multiple beneficiaries can be split at anytime (before or after the IRA owner's death), but if split after 12/31 of year after death, all beneficiaries will be stuck using the age of the beneficiary with the shortest life expectancy for the stretch.

15. Age 55 exemption from 10% penalty applies only to plans - not IRAs. If you attained age 55 or older in the year you left your job, distributions will be subject to taxation, but not the 10% penalty.

16. Between age 59½ and 70½ there are no rules and no penalties, making this an excellent time to do planning.

17. There is no deadline for a spousal rollover. It can be done at any time.

18. You don't have to name your spouse as your IRA beneficiary, as you do with a qualified plan. State law may provide a right of election though if you disinherit your spouse (IRS notice 97-10 provides sample spousal waiver language from plans).

19. 20% withholding tax rule does not apply to IRAs, it only applies to eligible rollover distributions from plans. However, if you do a trustee-to-trustee direct rollover, 20% does not apply. 20% also does not apply to NUA stock if it is the plan's only asset.

20. Only eligible rollover distributions can be rolled over. For example, required minimum distributions (RMDs and 72(t) payments cannot be rolled over.

21. NUA and 10 year averaging tax breaks also apply to beneficiaries (if decedent would have qualified, had he lived to take advantage of them). Keep track of IRA basis. Basis carries over to beneficiaries. If you own company stock in your 401k, you need to call us. NUA is a significant advantage, mostly overlooked by everyone.

22. 60-day rollover relief becoming less likely. In the past, the IRS has allowed people additional time to complete rollovers, but this flexibility

appears to becoming less frequent.

23. Being active in a company plan has no effect on Roth IRA eligibility. It also does not disqualify Traditional IRA contributions, but may limit the ability to take a tax deduction for them.

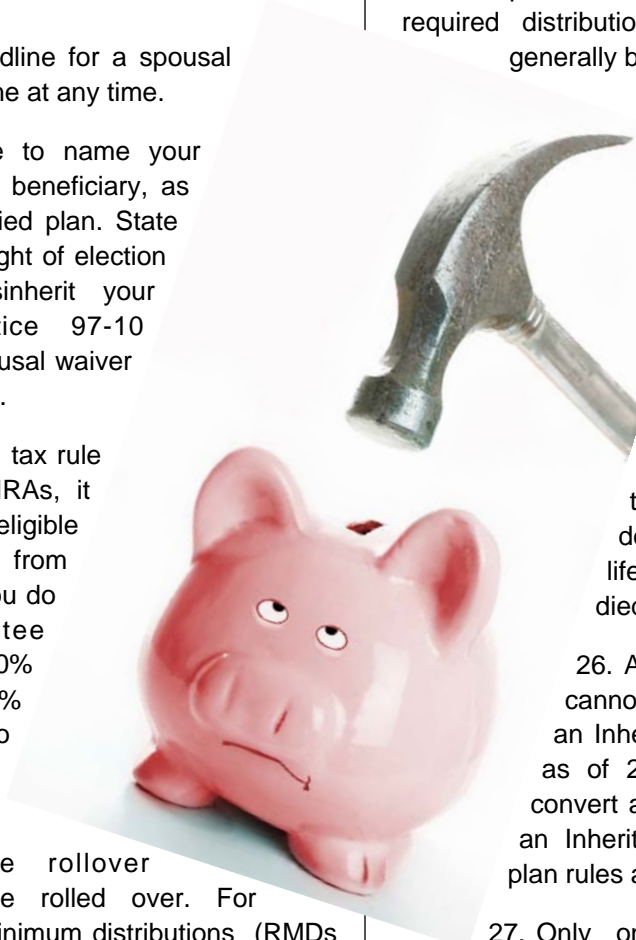
24. Non-spouse Roth IRA beneficiaries must take required distributions even though they will generally be tax free.

25. If the estate is the beneficiary, the beneficiaries who receive the IRA through the estate can set up inherited IRAs and close the estate. They will still never be designated beneficiaries, but they can withdraw from their inherited IRA (properly titled) over the 5-year rule, or decedent's remaining single life expectancy if the owner died after his (RBD).

26. A Non-Spouse beneficiary cannot convert an inherited IRA to an Inherited ROTH IRA. However, as of 2010, they may be able to convert an inherited 401K balance to an Inherited ROTH IRA if the 401K plan rules allow it.

27. Only one IRA Rollover may be completed each year, or 365 day period, per IRA. If this rule is violated, the improperly rolled amount is subject to taxes and penalties. However, an IRA owner is allowed as many trustee-to-trustee transfers as they wish. There is no relief in the tax code for a violation of the once-per-year rollover rule.

28. For 2009, the Required Minimum Distribution rule was suspended for both IRA owners and beneficiaries. RMD's are back in 2010 unless legislation passes to suspend them again.



Basic Gift Tax Issues

Many people are curious about the "gift tax exclusion" and how it really works. Some still believe that a gift is deductible by the person making the gift (the donor), and taxable to the person receiving the gift (the donee). This is absolutely not true. Gifts (not to be confused with charitable contributions, which have their own separate rules) are **neither** deductible by the donor, nor taxable to the donee. Each person is allowed to gift a specific amount that will **not** trigger any gift or estate tax issues. This specific amount is called the gift tax exclusion.

Why gift money?

Giftting money can be a very effective way to transfer substantial amounts from your estate, free from gift and estate taxes, to your children or other loved ones. This technique of estate tax planning can drastically reduce your taxable estate after your death, and could thereby reduce your associated estate taxes.

The amount of the annual gift exclusion, which is currently \$10,000, has been adjusted for inflation after 1998. However, the amount of the exclusion is always rounded to the next lowest multiple of \$1,000, so the \$10,000 amount won't increase to \$11,000 until the inflation adjustment is at least 10%. At current levels of inflation, it may be several years before the exclusion rises to \$11,000.

The exclusion covers gifts an individual gives to each recipient each year. Thus, a taxpayer with three children can transfer a total of \$30,000 (\$10,000 each) to them every year free of federal gift taxes. If the only gifts made during a year are excluded in this fashion, there is no need to file a federal gift tax return. If annual gifts exceed \$10,000 per recipient, the exclusion covers the first \$10,000 and the excess is taxable. Further, even taxable gifts may result in no gift tax liability thanks to the unified gift/estate credit (which we'll discuss below).

At this point, it should be noted that gifts made by a donor to her/his spouse are gift-tax-free under separate marital deduction rules. So, if you are considering making a gift of property or cash to your spouse, understand that the annual \$10,000 exclusion will not apply to you.



Gift-splitting by married taxpayers:

If the donor of the gift is married, gifts made during a year can be treated as a "split" between the husband and wife, even if the cash or gift property is actually given by only one of them. By gift-splitting, therefore, up to \$20,000 a year can be transferred to each recipient by a married couple because their two annual exclusions are available.

Example: A married couple with three married children can transfer a total of \$120,000 each year to their children and children-in-law (\$20,000 for each of the six separate recipients).

Where gift-splitting is involved, both spouses must consent to it. Consent should be indicated on the gift tax return(s) the spouses file. IRS prefers that both spouses indicate their consent on each return filed. (Since more than \$10,000 is being transferred by a spouse, a gift tax return(s) will have to be filed, even if the \$20,000 exclusion covers the gifts. So, be aware that if you elect gift-splitting, you'll need to file Form 709 (Annual Gift Tax Return) if more than \$10,000 is being given to a single recipient in any year.

Charitable Remainder Trusts

A charitable remainder trust may satisfy philanthropic, tax, and investment goals

Is it possible to improve your financial position by giving away some of your assets? It sounds contradictory, but federal tax law provides significant incentives in the form of capital-gains tax avoidance, immediate tax deductions, and tax-advantaged accumulation for gifts made using a charitable remainder trust.

Provides balance

Consider using a charitable remainder trust to balance your wealth allocation between your charitable intent and consumer needs for yourself and your heirs. If you have highly appreciated securities as a result of market advances, and

you are concerned about their future value, a charitable remainder trust may solve the problem by taking your gains and coming out ahead.

It could benefit your heirs, your charities, and you

Contributions to a charitable remainder trust are irrevocable. Proceeds from the trust are paid to your selected income beneficiaries for their lifetimes. The remaining assets pass to the charity or charities of your choice, usually after the death of the last income beneficiary. By combining this provisions of the tax law with other sound investment planning techniques and competent assets management, it is possible to create benefits for your heirs and yourself — and make a meaningful gift to a worthy cause.

Charitable Gifts of Life Insurance

Many of us have a soft spot in our heart for some special charity. For some, it's an alma mater, a hospital, place of worship, or local homeless shelter. For others, it is a widely recognized service or research organizations such as Doctors without Borders, the American Cancer Society or American Diabetes Association. Still others may have a special appreciation for Habitat for Humanity or the Red Cross. There is a nearly endless list of worthwhile organizations which could benefit from a gift from you.

Many people dream of giving a truly meaningful gift — helping with important research, adding a wing to a hospital or museum, endowing a chair at a university. But how could a normal person hope to make such a thing happen when their resources do not go far beyond regular, modest cash contributions?

The good news is that for an annual outlay comparable to your annual gifts, life insurance can create this kind of impact! And the mechanics of making a charitable gift of life insurance are straightforward. You can use a policy you already own or new policy.

Using an existing policy

You might use an existing policy, if your life insurance has outlived its original purpose. For example, insurance bought to fund your children's college education costs, pay off a mortgage, or provide survivor income to a young spouse might be appropriate for a charitable gift — if the kids are on their own, the mortgage is paid off, or your spouse is set with a comfortable retirement.

You can continue to own the policy and designate the charity as the beneficiary; or you can transfer

policy ownership to the charity, which then controls the beneficiary designation. In either case, the charity receives the death benefit.

To name the charity as the beneficiary, simply execute a change of beneficiary form. To transfer ownership from yourself to the charity, a change of ownership form can be easily completed. Both of these forms can be obtained from your insurance company through your agent.

If you retain ownership, you have the right to borrow or withdraw cash value,* change dividend options, and even surrender the policy. You also have the right to change the beneficiary in the future if personal financial circumstances change or decide another charity is more deserving.

On the other hand, if you really want to make the charity happy, transfer ownership of the policy. As a policy owner, the charity can access cash values, to meet current operating expenses or unforeseen demands. The downside to making the charity the owner is that once you give it away, the policy is gone even if you have a change of heart or circumstances later.

If you own the policy and merely name your charity as beneficiary, you should continue making premium payments directly to your insurance company so the policy remains in force. If you make the charity the policy owner, you can pay the premiums directly or increase your annual cash contribution so that the charity can pay the premiums. The advantage of paying the premium directly is that you know the premium is paid. If the charity is the premium payer, it is possible for premium payments to slip through the cracks.

Using a new policy

If you are healthy — and especially if you are young and healthy — you may want to purchase a new policy for your charitable donation. This may sound like a stretch if you still have children at home, a dependent spouse, or large mortgage debt. But if you are under age 45, don't smoke and are otherwise in good health, reallocating your annual charitable contribution to the payment of life insurance premiums generates tremendous leverage.

Again, you can choose to own the policy or make the charity the owner. The laws of most states prohibit the charity from applying for the policy, but you can apply and name the charity as owner. If you own the policy, you can retain access to cash values and flexibility going forward. If you want the charity to enjoy these benefits, name it as the owner.

Tax considerations

If you transfer ownership of an existing policy to a charity and itemize deductions, you may deduct the lesser of your basis in the policy and the policy's replacement cost. In most instances, your basis in the policy is premiums paid to date. The replacement value of a policy with ongoing premiums is roughly its cash value.

Beyond this, premiums paid on a new policy or existing policy donated to charity are deductible. However, the amount of your deduction for a policy contributed to charity and premiums on a new or existing policy is limited. If the charity is a public charity and you make cash gifts that are used for premium payments, your contributions are deductible up to 50% of your adjusted gross income (AGI). If the charity is a private foundation, or if you pay the premiums directly to the insurer on a policy owned by the charity, the deductibility limit is 30%. In either case, excess contributions may be carried forward for up to five years.

Whether the policy is existing or new, if you own it and merely name the charity as beneficiary, you are not entitled to a current income-tax deduction or a deduction for future premium payments. Also, the policy's proceeds will be included in your estate, with an estate-tax deduction for the proceeds paid to the charity.

Large charitable gifts are not just for high-rollers. Even modest premiums can translate into significant death benefits. Talk with your financial advisor and your favorite charities about how to make a charitable gift of life insurance work for you.

* Loans and withdrawals from life insurance will reduce both the policy cash value and the death benefit.

Save Taxes by Giving Away Your Home (and staying there, too)

With many relatively-moderate estates subject to federal tax, it is important to investigate devices that minimize the amount of assets subject to taxation. For many, one of the most useful and easy ways to reduce the impact of federal estate tax is to put the family home into a Qualified Personal Residential Trust (QPRT). This legal device allows one generation to pass a house or condominium on to the next generation without the gift-tax hit that a direct transfer would incur, gives the parents a legal right to keep living in the residence without paying rent, and allows enough flexibility to change residences, retire to a sunnier climate, or opt for more chore-free apartment living — without breaking up the trust.

The trust will hold your residence for a set number of years and then pass it on to your children or any other recipient you specify. You transfer to the trust the title to your home, but with the important proviso that you retain the right to live in the property throughout your life. The trust document provides that if you die before the end of the term, the property reverts to your estate.

Creation of the trust is treated under the tax law as a gift to the persons who will take possession at the end of the trust period. But the value of that gift is far less than it would be if you simply deeded the property over right now. That is because the claims you keep on the residence — to use it rent-free and to have it revert to your estate — have a real dollar impact that diminishes the value of the gift. Those retained rights can easily cut the value of the gift in half. That leaves you more leeway to give stock or other gifts without incurring tax.

How long should the trust run? Many couples pick a term of 10 or 15 years. The longer the term, the less the taxable amount of the gift

because the right you keep to remain in the house is worth more the longer it runs. But the longer-running trust also increases the chance that you will not outlive it — meaning that the home ends up back in your estate. You can guard against the extra estate taxes the residence would generate by buying a life insurance policy for the term of the trust.

You can be the trustee of the QPRT and are allowed to put additional money into the trust as needed— to pay for taxes, essential repairs to the property, even remodeling. You can keep the tax breaks that would be due you if you had continued to own the property. So, if you want the trust to sell the house and buy another one, the trust is able to roll over the capital gains into the new residence without any tax being due — a feature not available to an ordinary trust.

There are some strings, of course. The most significant one is that the property must be used as your personal residence. The law doesn't say primary residence — if you have a vacation home, you can set up two separate trusts — but it does mean that you cannot rent it out or let another family member live there most of the time. (The IRS has ruled that if you need to move into a nursing home, the house or apartment in the trust can continue to be considered your residence.) The property in the trust cannot be mortgaged. And any money put into the trust must be spent within six months or given back to you.

Once the term ends, the residence is the property of your children or other designated beneficiary. You can continue living in it but you must pay rent. And it is wise to turn to an independent agent to establish the going market rate for such a home.

Naming a Trust as an IRA Beneficiary

If a trust is named as an IRA beneficiary, use this checklist to help make sure the IRA trust works as planned:

- Make Sure the trust** is actually named as the beneficiary on the IRA beneficiary form. (A not-so-minor detail, often neglected)
- ** If the Trust has multiple beneficiaries of different ages, or “Sub-Trusts”, then the individual Sub-Trusts should be named as beneficiaries to preserve the life expectancy payout for each beneficiary.
- Make Sure the IRA custodian will accept your trust as the IRA beneficiary and pay out the inherited RMDs to the trust. For a company plan, check the “Summary Plan Description.”
- Make Sure the trust qualifies as a “see through” trust. It must meet the four IRA trust requirements.
- Make Sure all beneficiaries are named individuals. Otherwise, distributions may be taxed more rapidly and at a higher rate.
- Make Sure that trust wording regarding payment of estate expenses does not inadvertently make the estate a beneficiary of the trust.
- Make Sure the right type of trust is named (Conduit or Discretionary) Is tax efficiency or control more important?
- Make Sure the trust beneficiaries are well thought out specifically with the IRA in mind. There is no separate account rule for trusts. The ages of the trust beneficiaries can have a dramatic impact on taxation of IRA Distributions. Consider using a separate trust designed only to inherit IRA assets if the “Beneficiary Club” of your estate is complex, wide-ranging in age or differing in financial responsibility.
- Make Sure to consider the Uniform Principal and Income Act, Unit Trust, or Power of Adjustment Provisions, if they apply in your state. Carefully choose trust wording. Improper use of the word “Income” can inadvertently result in higher tax rates on distributions.
- Make Sure the trustee(s) understand that IRA Distribution rules are complex and different from any other asset class they will deal with. Advise them to seek the assistance of a qualified professional to preserve the benefit of long-term tax deferral offered by IRA assets.

Uniform Lifetime Table*

<i>Age of IRA Owner or Plan Participant</i>	<i>Life Expectancy (in years)</i>	<i>Age of IRA Owner or Plan Participant</i>	<i>Life Expectancy (in years)</i>
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115+	1.9

This table is only used for lifetime required distributions. Most IRA owners will use this table, but there is one exception. If the spouse is the sole beneficiary for the entire year AND is more than 10 years younger than the IRA owner, do not use this Uniform Lifetime Table. In this case, use the actual ages of both spouses based on the Joint Life Table. This will result in a longer life expectancy and a smaller required distribution.

* Source: Ed Stott IRA

Advisor

Single Life Table for Inherited IRAs*

Age of IRA or Plan Beneficiary	Life Expectancy (in years)	Age of IRA or Plan Beneficiary	Life Expectancy (in years)	Age of IRA or Plan Beneficiary	Life Expectancy (in years)	Age of IRA or Plan Beneficiary	Life Expectancy (in years)
0	82.4	28	55.3	56	28.7	84	8.1
1	81.6	29	54.3	57	27.9	85	7.6
2	80.6	30	53.3	58	27.0	86	7.1
3	79.7	31	52.4	59	26.1	87	6.7
4	78.7	32	51.4	60	25.2	88	6.3
5	77.7	33	50.4	61	24.4	89	5.9
6	76.7	34	49.4	62	23.5	90	5.5
7	75.8	35	48.5	63	22.7	91	5.2
8	74.8	36	47.5	64	21.8	92	4.9
9	73.8	37	46.5	65	21.0	93	4.6
10	72.8	38	45.6	66	20.2	94	4.3
11	71.8	39	44.6	67	19.4	95	4.1
12	70.8	40	43.6	68	18.6	96	3.8
13	69.9	41	42.7	69	17.8	97	3.6
14	68.9	42	41.7	70	17.0	98	3.4
15	67.9	43	40.7	71	16.3	99	3.1
16	66.9	44	39.8	72	15.5	100	2.9
17	66.0	45	38.8	73	14.8	101	2.7
18	65.0	46	37.9	74	14.1	102	2.5
19	64.0	47	37.0	75	13.4	103	2.3
20	63.0	48	36.0	76	12.7	104	2.1
21	62.1	49	35.1	77	12.1	105	1.9
22	61.1	50	34.2	78	11.4	106	1.7
23	60.1	51	33.0	79	10.8	107	1.5
24	59.1	52	32.3	80	10.2	108	1.4
25	58.2	53	31.4	81	9.7	109	1.2
26	57.2	54	30.5	82	9.1	110	1.1
27	56.2	55	29.6	83	8.6	111+	1.0

This table will be used by every designated beneficiary to calculate post-death required distributions. It will never be used by IRA owners or plan participants to calculate lifetime required distributions. This is a recalculating table, but only a spouse beneficiary who is the sole beneficiary can go back to the table each year and recalculate life expectancy. A non-spouse beneficiary cannot recalculate and would only use this table to compute the first year's required distribution for the inherited IRA. The life expectancy will then be reduced by one year for each succeeding year. Under the Final Regulations (issued by IRS in April 2002), this table will also be used by designated beneficiaries to change the distribution schedule by reconstructing life expectancy factors from prior years.

* Source: Ed Stott IRA

Action Items

Simple Steps to Help Get Underway

1. Ask for a free Beneficiary Review

Estimates are that 85% of beneficiary designations or other crucial information on IRA, 401(k) and insurance forms are out-of-date or flawed in some fashion.

This can have enormous consequences for you family's future.

2. Have your important documents scanned and saved on disk

Presidential will provide this service FREE.

Nearly everyone's important papers – IRAs, 401(k)s, insurance, trusts, will, etc. – are scattered and hard to find.

We will provide a complimentary service of scanning those important documents and storing them electronically for you and your family.

3. Custodians are not all alike – have your IRA/401(k) documents reviewed for flexibility and restrictions

In order to keep your money for your family – or let the IRS swallow it – your paperwork and custodian's guidelines must be right!

We can review your IRA and 401(k) documents to see if your custodian is a "tax friend" or "tax foe".

4. Roth conversion – it may have strong benefits for you even if you have previously not considered a Roth

When the media reports that converting to a Roth may not be important, they may be SERIOUSLY wrong!

Everything you thought you knew about a Roth IRA may now be out of date.

In 2010 all income caps are removed for Roths.

You can soon convert to a Roth regardless of your income.

Roths can take "Tax Infested" dollars and turn them into "Tax Free Forever" dollars.

Roth conversion can make a significant difference for people of all ages and wealth levels.





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