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Another Birthday Milestone

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If you drive a car, I'll tax the street
If you try to sit, I'll tax your seat
If you get too cold, I'll tax the heat
If you take a walk, I'll tax your feet
Taxman!
'Cause I'm the taxman, yeah I'm the taxman
-The Beatles, Taxman

In my August 2015 newsletter I offered eightieth birthday wishes to our Social Security program that provides retirement and disability benefits to millions of Americans. On August 14, 1935, Social Security was born in great controversy. Today, it is the cornerstone of most retirement plans and the only income lifeline that many elderly and disabled Americans have. Long live the Social Security program!!!

We are now approaching July 1, 2016 and another milestone birthday of sorts is unfolding. Beginning next month, the first wave of baby boomers born in 1946 will start turning 70 ½. This is quite amazing but the July 1 boomers will be followed by brother and sister boomers turning 70 ½ at the rate of 10,000 people per day for the next eighteen years.

Why are these birthdays so important? They are important because Required Minimum Distributions (RMDs) must be taken from Traditional Individual Retirement Accounts (IRAs) beginning at 70 ½. Simplified Employee Pensions (SEPs) and SIMPLE IRAs are also subject to this rule; Roth IRAs are not. Distributions must be taken by December 31 of each year or there is a 50% penalty on the amount you fail to withdraw. The taxman cometh.

There is a somewhat tricky first year exception that applies to everyone taking their initial Required Minimum Distribution. It should be noted that I am using the year 1946 here since this is the boomer birthday milestone (If you were born in 1947 or later, substitute your birth year into this formula when you turn 70 ½). If you were born between January 1 and June 30, 1946, then you can delay your first year distribution until April 1, 2017. However, if you decide to postpone your distribution until April 1 of 2017, then you must take two distributions in 2017. The first distribution is for age 70 and the second distribution is for age 71. Similarly, if your birthday is between July 1 and December 31, 1946, your first RMD will be in 2017, the year you turn 71.

Required Minimum Distributions are calculated by dividing your retirement account balance at the end of the previous year by the IRS-provided life expectancy table factor based upon your current age. This number/mathematical factor is found in IRS Publication 590-B. There are three life expectancy tables which may be used: 1) Single Life, 2) Joint Life and Last Survivor Expectancy and 3) Uniform Lifetime. The table used depends upon whether the IRA owner is living or deceased and, if deceased, whether the beneficiary is a spouse or non-spouse. In our example of a living IRA owner born in 1946 and starting to take distributions, the Uniform Lifetime Table is used. Each year the percentage withdrawn from your IRA steadily increases since the withdrawal factor increases every year for your age. However, that does not mean that your actual dollar amount will always be higher from one year to the next. The December 31 investment value of your IRA account will likely change from year to year. In short, divide the December 31 account value of the previous year by the factor for your current age found in the Uniform Table. That calculation will determine what amount must be withdrawn in the current year. As an example, if your December 31, 2015 balance was $175,000 and you are or will be 71 in 2016, divide $175,000 by 26.5 (factor for age 71) and your Required Minimum Distribution for 2016 is $6,603.77.

If you have multiple IRAs, required minimum distributions must be added up for all accounts. The distribution can be taken from a single account, more than one account or proportionately from each account. You can always take out more than the RMD but you cannot take out less. Additional amounts withdrawn are not credited for future year RMDs.

In most cases, your entire IRA withdrawal is added together with your other income. The combined amount is taxable at whatever ordinary income tax bracket you happen to be in for that year. While you do not see this very often, if you made any non-deductible contributions or rolled over any after-tax amounts to an IRA, the nondeductible contributions are not taxed when distributed.

It should be noted that most of this discussion has centered on Traditional IRA distributions. Employer 401(k) plans are also subject to the required minimum distribution rule. However, if you are still working at age 70 1/2, you do not have to take a distribution until you leave your job. Unlike traditional IRAs that prohibit funding after 70 1/2, in most cases you can continue funding your 401(k) until you stop working. Upon job termination, there is no additional funding allowed for 401(k)s and the RMDs must begin.

In summary, the goal of this article was to review the basics of traditional IRA distributions for baby boomers just turning 70 1/2. IRAs have the potential to cause a lot of unintended tax consequences for both owners and beneficiaries if not handled properly. There are a lot of rules and regulations most clients are unaware of which can be quite confusing. I am here to help you navigate through the uncertainty. Give a call and set up an appointment to discuss how this may affect you.

As a closing thought, it is hard to imagine that we just passed the summer solstice and daylight hours are already getting shorter. Time never stops for any of us. Take good care, enjoy the summer and have a Happy Fourth of July!!!

Estate –Planning Documents You Shouldn't Be Without

Safeguard Your Valuable Assets and Make a Difficult Time Easier for Your Heirs

Misunderstand or overlooking necessary estate-planning documents is more common than you might think, and there are a number of critical items we recommend you compile to ensure that you stay in control of your money and medical decisions.

Gathering this material and keeping it in a safe place can save your loved ones hours of effort, heartache and frustration at a time when your help is more valuable to them than ever.

The checklist that follows is a basic guide to what these important documents are and can be used as a reference as you gather them.

DOCUMENTS THAT MAKE A DIFFERENCE		✔	N/A
Essentials	These critical documents can make certain your assets are distributed as you intended.		
Original Document of Will	The most important item to keep on file. Determines who inherits your assets and guardianship of underage children. Without the *original document*, family members can challenge a copy of the will in court.	❑	❑
Letter of Instruction	Provides specific instruction on personal preferences for medical care as well as contact information for attorneys, accountants and financial advisers. Communicates your preferences to your executor for setting your estate. Holds no legal weight, but it is a useful complement to your will.	❑	❑
Original Trust Documents	Estate planners increasingly recommend the use of revocable trusts in addition to wills, since they are private and more difficult to contest in court. Can be changed at any time during your life.	❑	❑
Health Care Information (Advance Directives)	Having these pieces in place in the event of your incapacitation is just as important as preparing for what happens after your death.		
Authorization to Release Information	Defines the medical history and insurance information that you allow to be shared with specified recipients.	❑	❑
Do-Not-Resuscitate Order	Separate document completed with your physician asking medical personnel to refrain from administering CPR or cardiac life-support should you wish it.	❑	❑
Durable Power of Attorney	Legal authorization for a trusted person to act as your agent in legal or financial affairs after incapacitation and remaining in force until death.	❑	❑
Living Will	Outlines wishes for medical care if you're incapacitated and can't advocate for yourself. Keep a copy for yourself and give copies to your doctor, a family member and a health-care proxy.	❑	❑
List of Medications	Dosages, prescribing physician and pharmacies.	❑	❑
Personal and Family Medical History	Create a document detailing your own and all known medical conditions of parents and siblings.	❑	❑
Insurance and Retirement Accounts	If you have many sources of income, a financial adviser can help you get organized and create distribution and spending plans for your surviving family.		
401(k) and IRA Accounts	Create a list of all accounts for beneficiaries. An IRA is considered inactive and unclaimed if no withdrawal has been made by age 70½. (Track unclaimed pensions, 401(k)s and IRAs at www.missingmoney.com, a free service to help find forgotten assets.)	❑	❑
Annuity Contracts	Annuity beneficiaries will need to provide the contract in order to claim benefits.	❑	❑
Life Insurance Policies	Keep all current and former policies together, especially those from former employers.	❑	❑
Pension Documents	Heirs may not be aware of assets from your work history, which can be easy to overlook.	❑	❑
Personal Records	Government- and court-issued documents can be costly in both time and money to track down and replace. Keeping them in a secure place—like a safe deposit box—can greatly streamline claims by beneficiaries.		
Birth Certificates	Your own and those of any family members that you possess.	❑	❑
Divorce Papers	Divorce judgement/decree (or, if settled out of court, the stipulation agreement). Prevent disputes about child support, alimony, property settlements and division of investment and retirement accounts.	❑	❑
Logins and Passwords	Compile passwords and logins for all web-based accounts in a separate, password-protected document. Include logins for computers, phones, tablets and every online account (from banking and investments to streaming or social media, and make note of any paid services or subscriptions with recurring or periodic payments due).	❑	❑
Marriage Certificate and License	Make sure your spouse knows where to find paperwork. A marriage license often needs to be produced before your surviving spouse can claim any benefits or assets.	❑	❑
Military Records	Necessary for beneficiaries to receive benefits.	❑	❑
Passports	Originals or copies. Number and expiration date acceptable.	❑	❑
Pet Information	Description of each pet, veterinarian contact info and any medical notes.	❑	❑
Social Security Cards (or Numbers)	Provide for yourself as well as any beneficiaries named in will.	❑	❑
Proof of Ownership	If you don't tell family members about every asset, there is the chance that they will never know about them all.		
Bank Accounts	Provide your family with all accounts and access information so they can inform the bank of your death. Accounts that have no money movement can become property of the state.	❑	❑
Brokerage Accounts	If you've registered for online access, also include user names and passwords. Share the list of each investment custodian in your Letter of Instruction.	❑	❑
Escrow Mortgage Accounts	Beneficiaries are responsible for making payments. Any home equity loan must be satisfied or closed.	❑	❑
Housing/Land/Cemetery Deeds	Original documentation is ideal.	❑	❑
Liabilities	Gather information about all of your debts so loved ones can easily pay bills and know where to send payment. Mortgages, car loans, credit cards, etc.	❑	❑
Loans	Money you have lent to other people can be included in an estate.	❑	❑
Partnership/Corporate Operating Agreements	Highlight sections relevant to beneficiaries if your interest in a partnership is contracted to transfer after your death.	❑	❑
Safe Deposit Boxes	List any that you own and register your spouse or child's name with the bank so they can have access without needing to petition a court.	❑	❑
Stock Certificates/Savings Bonds	Physical copies will save your heirs the hassle of tracking down purchase date and prices.	❑	❑
Tax Returns	Providing returns from the last three years can offer a clear guideline to the types of assets you owned and make it easier for the executor to file the final income and estate tax return.	❑	❑
Vehicle Titles	Also helpful to include information about loans and registration fees.	❑	❑

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