

## Five Costly IRA and Retirement Plan Mistakes and Easy Ways to Avoid Them

Like most people, you've accumulated substantial retirement savings in your IRA or company retirement plan. But what happens when you retire, and you find yourself with sufficient sources of income to support your lifestyle without taking more than the minimum amount out of your IRA? Under current rules your beneficiaries can inherit your IRA and take out distributions over their lives while the principal continues to grow untaxed. This is the so called "Stretch IRA". To illustrate the power of this concept assume we have a husband and wife both aged 65 with a \$150,000 IRA and a 35 year old daughter. Assuming an 8% return the value of that IRA over the life of the family is over \$1.6 million dollars! As good as this sounds most people make mistakes that cost their families hundreds of thousands, even millions of dollars. The sad part is that these mistakes can usually be avoided using simple steps. This article will tell you the five most common IRA mistakes and how to avoid them.

### Mistake 1: Leaving Your Retirement Plan at your Company

Many people just leave their retirement plan at their company when they retire. Unless the plan offers you investment options you cannot get on your own this might not be a good idea. While the IRA rules are quite clear on the ability of your heirs to take your money out over their lifetime many company plans don't follow this logic. To avoid the added complexity they force your heirs to take the money out immediately, or within a short time period. This causes an immediate tax bill and the loss of years of tax deferred growth. If you are determined to leave your plan at your company please call your benefits department and find out what happens to your plan balance when you pass away.

### Mistake 2: Assuming Your IRA Custodian Knows What You Want

Many IRA custodians will unknowing mess up your IRA distribution plans. An example will illustrate the point. Let's say you have a son, Harry, and a daughter, Jane. They are the primary beneficiaries of your IRA. If Harry predeceases you, you would probably want his share to go to his family. However, many IRA custodians would give his entire share to Jane, freezing Harry's family out completely. How can you avoid this? Call your IRA custodian and find out how they handle this issue. If you don't like the answer your attorney can prepare a document called a retirement asset will which will set forth exactly what you want to happen with your IRA.

### Mistake 3: Taking More Than the Required Minimum Distribution

Once you turn 70 ½ you are required to start taking money out of your IRA. However, after age 59 ½ you are allowed to take money from your IRA without penalty (income taxes still apply). This leaves many people with a dilemma, just because you are allowed to take money out does that mean that you should? In most cases the answer is no. The longer you can leave this money to grow without tax the better. If you need to supplement your income and have other assets it is usually best to use those first.

### Mistake 4: Forgetting About Estate Taxes

We have a saying in our office "if you like income taxes you are going to love estate taxes". That's because the highest income tax rate is the lowest estate tax rate. If you are subject to estate taxes and your children must use your IRA to pay them then that money is double taxed. Taxed in your estate and taxed as income when they take it out. The bottom line is you could end up leaving 70% of your IRA to the IRS instead of your children. If you are subject to estate taxes there are a number of strategies to keep this from occurring.

### Mistake 5: Not Converting to a Roth IRA

A Roth IRA allows your IRA to grow tax free over your lifetime and the lifetime of your children. Compared to a traditional IRA this is a financial "home run" for your family. However, most people choose not to convert because of the up front tax bill. There are two answers to this concern. First, since your IRA has probably declined in value now would be the perfect time to convert, and any future appreciation would be tax free. Secondly, there are little known strategies to spread the conversion tax out over your lifetime.

Whatever you do it's important to know your options and properly plan to preserve your IRA assets for future generations. Today, with the proper planning, you have the potential to keep your IRA money growing tax deferred during your lifetime, and create a financial legacy you can pass on to your children, and even your grandchildren.

#### About the Author

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