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AMERICA'S TAX SOLUTIONS™ NEWSLETTER



COMMON IRA MISTAKES THAT CAN BE AVOIDED



MISTAKE #1: Failure to Name a Designated Beneficiary or Failure to Update the Designation Form

If you fail to name a designated IRA beneficiary, it could have unintended consequences. What is a “designated” beneficiary? Aren't all beneficiaries “designated”? No, they are not the same! A *designated* beneficiary is a living, breathing, human with a remaining life expectancy. Charities cannot be designated. Estates cannot be designated. Trusts cannot be designated. Your beloved dog cannot be designated. Failure to name a designated beneficiary essentially diminishes the opportunity for individual beneficiaries to maximize the benefits of tax deferred distributions on an inherited IRA.

Life changing events such as marriage, death, divorce, birth and adoption occur regularly and could impact your beneficiary designation decisions. Every IRA owner should conduct a beneficiary form review at least once a year to ensure that IRA assets will pass to the intended beneficiaries.



MISTAKE #2: Beneficiaries Fail to Take Advantage of the Stretch Opportunity and Cash Out the IRA

As an IRA owner, you may have all of the relevant information and knowledge about the incredible opportunities for tax deferred RMDs and minimizing any unnecessary taxation, but do your heirs? Many beneficiaries are in the dark and remain unaware of their options when it comes to inherited IRAs. Some beneficiaries even think the only option is to cash out the inherited IRA, potentially exposing the IRA to heavy, immediate and unnecessary taxation.



MISTAKE #3: Taking the Wrong RMD Amount

Assuming you remembered to take an annual distribution from your IRA, did you confirm that you took the *correct* minimum amount? Who did the calculation? Was it based on your balance as of December 31st of the prior year? Do you have more than one IRA? Were RMD calculations made from each of those IRAs? Did you add outstanding rollovers/IRA assets in transit and recharacterizations? Did you use the correct life expectancy factor? There is nothing wrong with taking out more than the required minimum,

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