

# Wealth preservation: Protect your IRA or retirement plan from taxes

If you've worked hard and amassed a large IRA or retirement plan, don't think it's all smooth sailing from here on out. There is still work to be done. Protect the wealth you have built up in your IRA so that what you don't use can go to those people and causes that are nearest and dearest to your heart.

There are three candidates to receive your IRA funds after you are gone: your heirs and family, charities and Uncle Sam. We assume the latter is not among your list of beneficiaries, but the fact is a huge percentage of retirement plan assets in America go to the taxman each year. Although this article is focused on large IRA tax issues only, readers wishing to learn more about tax and other pitfalls the wealthy face can e-mail us at [FourFactors@PillarOnline.com](mailto:FourFactors@PillarOnline.com) and request our latest white paper titled "Four Factors The Affluent Must Know To Avoid Financial Disaster And Secure Their Dreams."

With baby boomers moving into retirement, the question of protecting retirement assets is increasingly important. Not surprisingly, more and more of our clients and prospective clients are looking for ways to handle large IRA-related tax issues.

Not long ago, we demonstrated some of the potential tax pitfalls involving a large IRA to a recently widowed gentleman who had a net worth of about \$10 million and wanted to leave a portion of the IRA to family as well as charity. Part of the wealth they had accumulated was the husband's \$4 million pension plan, which was converted to an IRA.

First we explained the bleak future that lay ahead for the money in the IRA if he did not plan properly.

BUILDING WEALTH BY CHRISTOPHER G. SNYDER AND HAITHAM "HUTCH" E. ASHOO



Your team of East Bay business experts

## Take-aways

- **Taxes could take 68 percent of your large IRAs and retirement plans.**
- **Uncle Sam is the biggest beneficiary of many large IRAs.**
- **Advanced estate and tax planning strategies are available.**

Without taking the right steps, 37 percent of the retirement money would go to federal and state income taxes upon his death, and another 47 percent would be lost to federal estate taxes. (These are 2005 figures, new estate tax brackets are in effect this year.)

Of that \$4 million IRA, \$2.6 million could wind up being lost to taxes. Though there are tax deductions for estate taxes, the client's children would net about \$1.3 million, and nothing would go to charity, making Uncle Sam his biggest IRA beneficiary.

Even with a living trust, his estate would only be sheltered for about \$4 million of his \$10 million from estate taxes, which meant his \$4 million IRA and \$2 million of his wealth would be eaten up by estate taxes. Keep in mind that this estate would be worth two to three times this amount, \$20 million to \$30 million, in 15 to 20 years if it grew at 6 percent a year.

So, realizing we had a huge tax problem on our hands we went to work on making his heirs the largest beneficiaries and helping to fulfill his dream to donate a substantial amount to his favorite charities.

We showed him how he could take \$160,000 from his IRA each year, pay taxes and net about \$100,000 annually. The proceeds would fund an irrevocable life insurance trust. Upon his death, the trust would pay the beneficiaries \$15 million unencumbered by estate or income taxes.

Then we focused on how to fulfill his dream of gifting to charity. We recommended he make the beneficiary of his IRA his favorite charities. The charities would then get \$4 million if he averaged a 4 percent return (or whatever his IRA value is at his death).

This was a good example of someone who is able to benefit from an advanced estate planning strategy that went beyond the living trust and ensured that wealth that would have otherwise gone to taxes went instead to those he most wanted to help – his family and charity.

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