



**ONEONE WEALTH MANAGEMENT**  
OF  
**RAYMOND JAMES®**

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Protect Your Heirs by Naming a Trust as IRA Beneficiary

Quiz: Can You Answer These Social Security Benefit Questions?

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# Our Quarterly Musings

## Settling an Estate: Executors Inherit Important Title



Being named as the executor of a family member's estate is generally an honor. It means that person has been chosen to handle the financial affairs of the deceased individual and is trusted to help carry

out his or her wishes.

Settling an estate, however, can be a difficult and time-consuming job that could take several months to more than a year to complete. Each state has specific laws detailing an executor's responsibilities and timetables for the performance of certain duties.

If you are asked to serve as an executor, you may want to do some research regarding the legal requirements, the complexity of the particular estate, and the potential time commitment. You should also consider seeking the counsel of experienced legal and tax advisors.

### Documents and details

A thoughtfully crafted estate plan with up-to-date documents tends to make the job easier for whoever fills this important position. If the deceased created a letter of instruction, it should include much of the information needed to close out an estate, such as a list of documents and their locations, contacts for legal and financial professionals, a list of bills and creditors, login information for important online sites, and final wishes for burial or cremation and funeral or memorial services.

An executor is responsible for communicating with financial institutions, beneficiaries, government agencies, employers, and service providers. You may be asked for a copy of the will or court-certified documentation that proves you are authorized to conduct business on behalf of the estate. Here are some of the specific duties that often fall on the executor.

**Arrange for funeral and burial costs to be paid from the estate.** Collect multiple copies of the death certificate from the funeral home or coroner. They may be needed to fulfill various

official obligations, such as presenting the will to the court for probate, claiming life insurance proceeds, reporting the death to government agencies, and transferring ownership of financial accounts or property to the beneficiaries.

**Notify agencies such as Social Security and the Veterans Administration as soon as possible.** Federal benefits received after the date of death must be returned. You should also file a final income tax return with the IRS, as well as estate and gift tax returns (if applicable).

**Protect assets while the estate is being closed out.** This might involve tasks such as securing a vacant property; paying the mortgage, utility, and maintenance costs; changing the name of the insured on home and auto policies to the estate; and tracking investments.

**Inventory, appraise, and liquidate valuable property.** You may need to sort through a lifetime's worth of personal belongings and list a home for sale.

**Pay any debts or taxes.** Medical bills, credit card debt, and taxes due should be paid out of the estate. The executor and/or heirs are not personally responsible for the debts of the deceased that exceed the value of the estate.

**Distribute remaining assets according to the estate documents.** Trust assets can typically be disbursed right away and without court approval. With a will, you typically must wait until the end of the probate process.

The executor has a fiduciary duty — that is, a heightened responsibility to be honest, impartial, and financially responsible. This means you could be held liable if estate funds are mismanaged and the beneficiaries suffer losses.

If for any reason you are not willing or able to perform the executor's duties, you have a right to refuse the position. If no alternate is named in the will, an administrator will be appointed by the courts.



While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisers before implementing such strategies.

## Protect Your Heirs by Naming a Trust as IRA Beneficiary

Often, tax-qualified retirement accounts such as IRAs make up a significant part of one's estate. Naming beneficiaries of an IRA can be an important part of an estate plan. One option is designating a trust as the IRA beneficiary.

**Caution:** This discussion applies to traditional IRAs, not to Roth IRAs. Special considerations apply to beneficiary designations for Roth IRAs.

### Why use a trust?

Here are the most common reasons for designating a trust as an IRA beneficiary:

- Generally, inherited IRAs are not protected from the IRA beneficiary's creditors. However, IRA funds left to a properly drafted trust may offer considerable protection against the creditors of trust beneficiaries.
- When you designate one or more individuals as beneficiary of your IRA, those beneficiaries are generally free to do whatever they want with the inherited IRA funds, after your death. But if you set up a trust for the benefit of your intended beneficiaries and name that trust as beneficiary of your IRA, you can retain some control over the funds after your death. Your intended beneficiaries will receive distributions according to your wishes as spelled out in the trust document.
- Through use of a trust as IRA beneficiary, you may "stretch" IRA payments over the lifetimes of more than one generation of beneficiaries. Payments to IRA trust beneficiaries must comply with distribution rules depending on the type of IRA plan.

### What is a trust?

A trust is a legal entity that you can set up and use to hold property for the benefit of one or more individuals (the trust beneficiaries). Every trust has one or more trustees charged with the responsibility of managing the trust property and distributing trust income and/or principal to the trust beneficiaries according to the terms of the trust agreement. If the trust meets certain requirements, the beneficiaries of the trust can be treated as the designated beneficiaries of your IRA for purposes of calculating the distributions that must be taken following your death.

### Special rules apply to trusts as IRA beneficiaries

Certain special requirements must be met in order for an underlying beneficiary of a trust to qualify as a designated beneficiary of an IRA. The beneficiaries of a trust can be designated beneficiaries under the IRS distribution rules only if the following four trust requirements are

met in a timely manner:

- The trust beneficiaries must be individuals clearly identifiable from the trust document as designated beneficiaries as of September 30 following the year of the IRA owner's death.
- The trust must be valid under state law. A trust that would be valid under state law, except for the fact that the trust lacks a trust "corpus" or principal, will qualify.
- The trust must be irrevocable, or by its terms become irrevocable upon the death of the IRA owner.
- The trust document, all amendments, and the list of trust beneficiaries must be provided to the IRA custodian or plan administrator by October 31 following the year of the IRA owner's death. An exception to this rule arises when the sole trust beneficiary is the IRA owner's surviving spouse who is 10 years younger than the IRA owner, and the IRA owner wants to base lifetime required minimum distributions (RMDs) on joint and survivor life expectancy. In this case, trust documentation should be provided before lifetime RMDs begin.

**Note:** Withdrawals from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn by the IRA owner prior to age 59½, with certain exceptions as outlined by the IRS.

### Disadvantages of naming a trust as IRA beneficiary

If you name your surviving spouse as the trust beneficiary of your IRA rather than naming your spouse as a direct beneficiary, certain post-death options that would otherwise be available to your spouse may be limited or unavailable. Naming your spouse as primary beneficiary of your IRA provides greater options and maximum flexibility in terms of post-death distribution planning.

Setting up a trust can be expensive, and maintaining it from year to year can be burdensome and complicated. So the cost of establishing the trust and the effort involved in properly administering the trust should be weighed against the perceived advantages of using a trust as an IRA beneficiary. In addition, if the trust is not properly drafted, you may be treated as if you died without a designated beneficiary for your IRA. That would likely shorten the payout period for required post-death distributions.



**Did you know that 94% of all workers are covered under Social Security?**

**Source: Social Security Fact Sheet on the Old-Age, Survivors and Disability Insurance Program, July 2017**

## Quiz: Can You Answer These Social Security Benefit Questions?

Most people will receive Social Security benefits at some point in their lifetimes, but how much do you know about this important source of income? Take this quiz to learn more.

### Questions

**1. Can you receive retirement and disability benefits from Social Security at the same time?**

- a. Yes
- b. No

**2. If your ex-spouse receives benefits based on your earnings record, your benefit will be reduced by how much?**

- a. Reduced by 30%
- b. Reduced by 40%
- c. Reduced by 50%
- d. Your benefit will not be reduced

**3. For each year you wait past your full retirement age to collect Social Security, how much will your retirement benefit increase?**

- a. 6%
- b. 7%
- c. 8%

**4. Monthly Social Security benefits are required to be paid by which of the following methods?**

- a. Paper check only
- b. Paper check, direct deposit, or debit card
- c. Direct deposit or debit card

**5. Are Social Security benefits subject to income tax withholding?**

- a. Yes
- b. No

**6. Once you've begun receiving Social Security retirement benefits, you can withdraw your claim if how much time has elapsed?**

- a. Less than 12 months since you've been receiving benefits
- b. Less than 18 months since you've been receiving benefits
- c. Less than 24 months since you've been receiving benefits

### Answers

**1. b.** No. If you receive a disability benefit, it will automatically convert to a retirement benefit once you reach full retirement age.

**2. d.** Your benefit will not be reduced if your ex-spouse receives Social Security benefits based on your earnings record.

**3. c.** Starting at full retirement age, you will earn delayed retirement credits that will increase your benefit by 8% per year up to age 70. For example, if your full retirement age is 66, you can earn credits for a maximum of four years. At age 70, your benefit will then be 32% higher than it would have been at full retirement age.

**4. c.** Since 2013, the Treasury Department has required electronic payment of federal benefits, including Social Security. You can sign up for direct deposit of your benefits into your current bank account or open a low-cost Electronic Transfer Account (ETA) at a participating financial institution. Another option is to sign up for a Direct Express® prepaid debit card. Under this option, your Social Security benefits are deposited directly into your card account, and you can use the card to make purchases, pay expenses, or get cash.

**5. b.** No. Withholding isn't mandatory, but you may voluntarily ask the Social Security Administration to withhold federal income tax from your benefits when you apply, or later, if you determine you will owe taxes on your Social Security benefits (not everyone does). You may choose to have 7%, 10%, 15%, or 25% of your benefit payment withheld. Ask a tax professional for help with your situation.

**6. a.** If something unexpected happens and you've been receiving Social Security benefits for less than 12 months after signing up, you can change your mind and withdraw your claim (and reapply at a later date). You're limited to one withdrawal per lifetime, and there are also financial consequences. You must repay all benefits already paid to you or your family members based on your application (anyone affected must consent in writing to the withdrawal), and repay any money previously withheld, including Medicare premiums or income taxes.

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## What is gross domestic product, and why is it important to investors?

GDP, or gross domestic product, measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. In essence, GDP is a broad measure of the nation's overall economic activity and serves as a gauge of the country's economic health. Countries with the largest GDP are the United States, China, Japan, Germany, and the United Kingdom.

GDP generally provides economic information on a quarterly basis and is calculated for most of the world's countries, allowing for comparisons among various economies. Important information that can be gleaned from GDP includes:

- A measure of the prices paid for goods and services purchased by, or on behalf of, consumers (personal consumption expenditures), including durable goods (such as cars and appliances), nondurable goods (food and clothing), and services (transportation, education, and banking)
- Personal (pre-tax) and disposable (after-tax) income and personal savings

- Residential (purchases of private housing) and nonresidential investment (purchases of both nonresidential structures and business equipment and software, as well as changes in inventories)
- Net exports (the sum of exports less imports)
- Government spending on goods and services

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a specific period and can play a role when making financial decisions. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.



## What are the gift and estate tax rules after tax reform?

The Tax Cuts and Jobs Act, signed into law in December 2017, approximately doubled the federal gift and estate tax basic exclusion amount to

\$11.18 million in 2018 (adjusted for inflation in later years). After 2025, the exclusion is scheduled to revert to its pre-2018 level and be cut approximately in half. Otherwise, federal gift and estate taxes remain the same.

**Gift tax.** Gifts you make during your lifetime may be subject to federal gift tax. Not all gifts are subject to the tax, however. You can make annual tax-free gifts of up to \$15,000 per recipient. Married couples can effectively make annual tax-free gifts of up to \$30,000 per recipient. You can also make unlimited tax-free gifts for qualifying expenses paid directly to educational or medical service providers. And you can make deductible transfers to your spouse and to charity. There is a basic exclusion amount that protects a total of up to \$11.18 million (in 2018) from gift tax and estate tax. Transfers in excess of the basic exclusion amount are generally taxed at 40%.

**Estate tax.** Property you own at death is subject to federal estate tax. As with the gift tax, you can make deductible transfers to your spouse and to charity; there is a basic exclusion amount that protects up to \$11.18 million (in 2018) from tax, and a tax rate of 40% generally applies to transfers in excess of the basic exclusion amount.

**Portability.** The estate of a deceased spouse can elect to transfer any unused applicable exclusion amount to his or her surviving spouse (a concept referred to as portability). The surviving spouse can use the unused exclusion of the deceased spouse, along with the surviving spouse's own basic exclusion amount, for federal gift and estate tax purposes. For example, if a spouse died in 2011 and the estate elected to transfer \$5 million of the unused exclusion to the surviving spouse, the surviving spouse effectively has an applicable exclusion amount of \$16.18 million (\$5 million plus \$11.18 million) to shelter transfers from federal gift or estate tax in 2018.