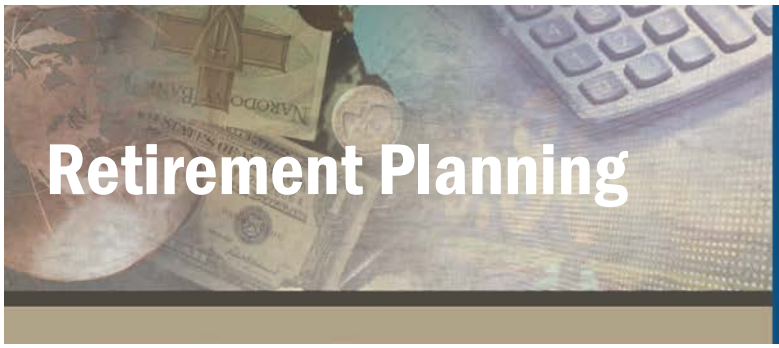

BENJAMIN F. EDWARDS & CO.
INVESTMENTS for GENERATIONS

Designating a Beneficiary for Your IRA

You have likely named beneficiaries many times over the years for things like your life insurance policies, annuity contracts, IRAs, company pension or 401(k) plans, or other company sponsored benefit programs. And if you are like most people, you probably gave that beneficiary designation about a minute of consideration before penning in the names of your loved ones and signing your name to it. Or worse, you decided you didn't have the time to decide right at that moment and didn't bother to name any beneficiaries. You may not realize it, but what happens to your IRA after your death is as unique as you and is primarily determined by what your IRA beneficiary designation says.

Your beneficiary designation determines not only who receives the IRA after you die, but also how the IRA will be distributed and the income tax treatment of those distributions to your beneficiaries. For something that important, the more you know and understand about IRA beneficiary designations, the more comfortable you can feel that your intentions for your IRA will be realized. Keep in mind that no one solution will be appropriate for everyone. Because planning of this nature can be complex, it is important that you coordinate your goals with a team of financial, tax and legal professionals.

WHO IS YOUR DESIGNATED BENEFICIARY

You can name anyone as the beneficiary of your IRA, for example an individual (your spouse or someone other than your spouse), a trust, your favorite charity or other entity. Each category of beneficiary operates a little differently when you look at the tax consequences and distribution alternatives that are available to them after your death.

Your Beneficiary Designation Supersedes Your Will or Trust

Regardless of the instructions you leave in your will or your trust, your beneficiary designation determines who receives your IRA after your death. When changes in your personal life happen, like the death of the spouse, divorce, or new children or grandchildren are born, your IRA beneficiary designation should be reviewed to see if changes should be made.

On September 30th of the year following the year of your death, the "designated beneficiary" of your IRA is determined. This term carries special meaning under IRS rules. This is the individual whose life expectancy will be used to determine how long distributions can be extended from the IRA after death. Because distributions from an IRA are generally taxable to the beneficiary as he or she receives them, the timing of those distributions or how many years they have to receive them can have a significant impact on the tax burden you are leaving your beneficiary after your death. He or she must be an individual who can be identified through the beneficiary designation or plan document. If a beneficiary cashes out his or her entire balance by September 30th of the year following death, he or she will no longer be considered a designated beneficiary, therefore his or her life expectancy will not be taken into account for calculating the distributions required from the IRA.

Beneficiaries have until December 31st of the year following the year of death to consider their options and receive their first required minimum distribution (RMD). An RMD is the amount the IRS requires a beneficiary to withdraw from the IRA each year.[1]

WHEN YOU DIE WITHOUT A BENEFICIARY

If you die without having named a beneficiary, a beneficiary will be designated for you according to your IRA's trust or custodial agreement. Typically, these agreements will designate your surviving spouse as your beneficiary if you are married at the time of death. If you are not married, your estate may automatically become the beneficiary of the IRA.

Because failing to designate your own beneficiary takes away your control, it is not only important that you name a beneficiary for your IRA, but you should name both a primary and a contingent beneficiary. A contingent beneficiary will inherit your IRA only in the event that you have no remaining primary beneficiaries at the time of your death. This will provide an extra layer of protection in the event you and your primary beneficiary should die together or your primary beneficiary predeceases you. It will also provide additional flexibility for the beneficiaries that survive you.

NAMING INDIVIDUALS (SPOUSE OR NON-SPOUSE)

Your spouse can take advantage of certain tax benefits that are not available to other beneficiaries. If the IRA is not needed right away, your spouse can roll your IRA into an IRA of his or her own, possibly deferring income taxes and letting the IRA continue its tax deferral for a longer period of time. In treating the IRA as his or her own, your surviving spouse can take distributions as desired[2] and name new beneficiaries to inherit the assets at his or her death. Instead of a rollover, your spouse can also elect to use the IRA for income as a beneficiary by keeping the assets in an inherited IRA, and thereby avoiding the IRS 10% early withdrawal penalty if they are not age 59½ or older at the time they take distributions.

---

[1] *An RMD is also the amount the IRS requires an individual to withdraw each year from their traditional IRA or employer-sponsored plan starting at age 70 ½.*

[2] *Distributions prior to age 59 ½ may be subject to an IRS 10% early withdrawal penalty*

A non-spouse beneficiary has fewer choices when he or she inherits IRA assets. For example, a non-spouse beneficiary cannot roll the assets into his or her own IRA. Instead, the beneficiary must establish an inherited IRA (sometimes referred to as a deceased IRA, "for the benefit of" or FBO IRA). With an inherited IRA, the distributions are generally required to begin no later than December 31st of the year following the year of death. Naming younger individuals, like children or grandchildren, allows for a longer payout period because the IRA can be distributed over each beneficiary's own life expectancy if they establish separate inherited IRAs. These inherited IRA RMDs allow the tax deferral to continue and spread the income tax liability out over a number of years. This is sometimes referred to as a "stretch IRA" strategy. If you would like more information about this strategy, please ask your Benjamin F. Edwards financial consultant for a customized illustration showing how this strategy might work for you and your beneficiaries.

NAMING ENTITIES (ESTATE, TRUST OR CHARITY)

When the non-spouse beneficiary is not an individual, but is an entity like your estate, a trust or charity, the alternatives available are even more limited. Careful consideration should be given before naming an entity as your IRA beneficiary.

Your Estate – If you decide to name your estate as the primary beneficiary of your IRA, your will becomes the governing document in distributing the assets. Any beneficiary of your estate who is not the named executor will have no direct control over the IRA. The executor will make any investment and distribution decisions for the inherited IRA. Generally, the life expectancy option is not available if your estate is named as your beneficiary and many times this means the IRA must be distributed in full within a year of death as the estate is settled and closed. In addition to the income tax liability created through a lump sum distribution such as this, when your estate is named as your beneficiary, your IRA assets, along with the other assets of your estate, will go through probate where delays and fees could tie them up.

A Trust – Naming a trust as the beneficiary of your IRA can be beneficial when there is a need to have additional control over or protection of the IRA assets. Trusts are typically used in situations where you want to name minors as your beneficiaries, you have beneficiaries who are not capable of managing the assets or aren't financially stable, there is a second marriage, or the trust is being used to resolve an estate tax issue. After your death, an inherited IRA would be established and the trustee of the trust would make any investment and distribution decisions. An inherited IRA with a trust beneficiary may pay RMDs over a life expectancy period, generally over the life of the oldest beneficiary of the trust, only if the trust is a "qualified trust". This term also carries special meaning with the IRS so ask your attorney to review your trust to determine if it is a qualified trust before designating it as the beneficiary of your IRA.

As beneficiary, the trust is generally required to pay the income tax liability associated with the inherited IRA distributions. Once received by the trust, the distribution of the trust assets to the trust beneficiaries will depend on the terms of the trust document, and in some circumstances the income tax liability for the inherited IRA may be passed through to the trust beneficiary. Because the trustee of the trust may not desire to keep the trust open and

have ongoing costs for administering the trust for the life of the oldest trust beneficiary, many times the distributions and subsequent tax liabilities from the inherited IRA are accelerated.

A Charity – If you have a favorite charitable organization you would like to name as beneficiary of your IRA, distributions to the charity do not create an income tax liability because charitable organizations are tax exempt. In addition, your estate may enjoy tax savings in the form of an estate tax charitable deduction. For this reason, most charities will request the IRA be paid in a lump sum distribution, even though other alternatives may be available. If you plan to make a charitable bequest at death, consider leaving your IRA to the charity and other assets (with no deferred income taxes) to your family.

WHEN MULTIPLE BENEFICIARIES ARE INVOLVED

If you want your IRA to be divided among multiple beneficiaries, carefully consider how you want it divided and clearly indicate this information on your IRA beneficiary designation form. Most IRA custodians will automatically assume you want to split the IRA equally between the beneficiaries, unless you indicate otherwise. In addition, if you have multiple primary beneficiaries, and one of those beneficiaries dies before you, most IRA agreements will divide the IRA equally among the remaining surviving beneficiaries at the time of your death.

In a typical IRA beneficiary designation, you would name all the intended beneficiaries and the percentage of the IRA each is to receive. At times, the following terms are used in lieu of naming all the intended individuals:

Per Stirpes – means to divide the assets by a class or group of heirs. Meaning "by roots", per stirpes beneficiary designations allow the assets to pass to others represented in a group, each receiving their proportional share. For example, let's say you named your wife as your primary beneficiary and your four children per stirpes, as your contingent beneficiaries. Your wife and one of the four children predecease you. The deceased child had three children, all living at the time of your death. These three grandchildren will share equally in one-fourth of your IRA, the share the deceased parent would have taken if still alive. The three living children will also each receive one-fourth of the estate.

Per Capita – means to divide the assets in equal shares by the total number of individuals represented by the group. Using the same example as above, but instead naming the four children per capita, the six surviving beneficiaries (the three children and three grandchildren) would all receive equal shares or one-sixth of your IRA.

Per stirpes and per capita are complicated terms. Consult your legal advisor if you are considering these terms as part of your beneficiary designation.

Beneficiary Designations to Avoid

When it comes to beneficiary designations, it is important to be as specific as possible. Avoid general or overly broad categories of beneficiaries like all my living children, all dependents, per my issue, or per law. These types of designations make it difficult to identify who you intended and many financial institutions will not accept them because of that reason. Make sure you identify your beneficiaries by name and whenever possible include the beneficiary's date of birth and social security number.

QUALIFIED DISCLAIMERS

Any beneficiary has the right to disclaim or refuse inherited IRA assets. With a qualified disclaimer, the individual disclaiming the assets would not be subject to income taxes on the assets refused.

For a qualified disclaimer to be executed, Internal Revenue Code Section 2518 requires the following:

1. The disclaimer must be in writing.
2. The disclaimer must be made within nine months of when the beneficiary attains the right to the property (usually within nine months of death).
3. The beneficiary may not have accepted any of the property or benefits of the property prior to executing the disclaimer.
4. The beneficiary cannot direct who receives the property being disclaimed.

Generally, the disclaimed assets will pass to the next beneficiary in line according to the beneficiary designation and/or the IRA custodial agreement.

TAX CONSIDERATIONS AND PENALTIES

Upon your death, the fair market value of your IRA, whether it is a traditional IRA or Roth IRA, will be included in your estate for estate tax calculations. Withdrawals made after your death from traditional IRAs (including rollover IRAs) are generally taxed as ordinary income to the individual or entity that receives the distribution. However, withdrawals from Roth IRAs are income tax-free to your beneficiaries if certain circumstances are met. Your beneficiaries can receive tax-free withdrawals after your death if you have had the Roth for at least 5 years. Otherwise, any earnings distributed prior to the end of the 5 year period would be taxable. Because ordering rules apply to Roth IRA distributions, all contributions and converted balances must be withdrawn first, before any earnings can be distributed.

Although a 10% IRS early distribution penalty generally applies to any withdrawals you take prior to age 59 ½, distributions made to your beneficiaries from an inherited IRA after your death are not subject to the penalty, regardless of the beneficiary's age.

CHANGING BENEFICIARIES

It is easy to update your beneficiary designation and changes can be made at any time. However, if you live in a community property state, and you name someone other than your spouse as your beneficiary, your spouse will have to sign their consent to the IRA beneficiary designation.

Without your spouse's consent, they may still be entitled to a portion of the IRA even if they were not named on the beneficiary form due to state law. Currently, the states that have such laws are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

ACTION PLAN

If it has been a while since you last reviewed your IRA beneficiary or you simply cannot remember who you named, now may be a good time to sit down with your Benjamin F. Edwards & Co. financial consultant to review what you have in place. Make sure you gather together all your important documents with beneficiary designations like your life insurance policies, annuity contracts, retirement plan statements and estate planning documents like your wills or trusts so your financial consultant can work with you and your tax or legal professionals to identify your wealth transfer goals and coordinate your beneficiary designations. He or she can help you understand who is designated on which assets and also what your IRA trustee or custodian will accept.

Your financial consultant can also help you educate your beneficiaries so they understand what options they will have. Make sure you introduce your beneficiaries to your financial consultant so they know who to contact, where to find your important documents, and what steps they should take in the event of your death. Lastly, if your beneficiary designation is a bit out of date and needs updating, your financial consultant can help you organize your information and direct you to the forms necessary to do that as well.

Because everyone's situation is unique and many times your priorities change over time, make sure you periodically review your beneficiary designations. Once every year or two, take the time to sit down with your team of financial, tax and legal professionals to make sure your beneficiary designations reflect your current wealth transfer intentions.

IMPORTANT DISCLOSURES

BENJAMIN F. EDWARDS & CO.
INVESTMENTS for GENERATIONS
Member SIPC
One North Brentwood Boulevard, Suite 850 | St. Louis, Missouri 63105 | 314-726-1600 | @GrowWithBFEC | benjaminfedwards.com