

# LAWYER FOR *Life*

NEWS AND IMPORTANT INFORMATION FOR SENIORS AND THEIR FAMILIES



## THE ROTH IRA VERSUS THE TRADITIONAL IRA: WHICH ONE IS RIGHT FOR YOU?

Deciding whether to choose a Roth IRA or a Traditional IRA is an important decision and can have major financial consequences. Both options, however, are excellent ways to save for retirement. Let's look at some of the biggest differences between the two.

### ROTH IRA

- Your contributions are not tax deductible
- There is no mandatory distribution age
- Earnings and principal are tax free if you follow all rules and regulations
- Not everyone can open a Roth IRA. Individuals making more than \$95,000 and married couples making more than a combined maximum of \$150,000 annually are ineligible
- Principal contributions can be withdrawn any time without penalty (certain conditions do apply)

### TRADITIONAL IRA

- Depending on your level of income, your contributions may be tax deductible

- You can make withdrawals without penalty beginning at age 59 1/2. Deductions are mandatory when you reach the age of 70 1/2
- When you make withdrawals from the IRA, taxes must be paid on earnings
- There are no income restrictions on opening an IRA, anyone can do so
- Funds withdrawn before age 59 1/2, including principal contributions, are subject to a 10 percent penalty (although there are exceptions to this rule)

For many individuals and couples, the Roth IRA is the better choice, thanks to its tax-free distributions and greater flexibility. As noted above, however, not everyone is eligible to open a Roth IRA. And of course, every person's situation is unique. We invite you to contact us to discuss your concerns and goals before making this important decision.



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# SHOULD YOU CONVERT YOUR TRADITIONAL IRA TO A ROTH IRA?

Changes to the law in 2010 make converting from a Traditional IRA (and other qualified plans, such as 401k, 403b and 457 plans) available to everyone. For many people, the idea of conversion is attractive, because of tax-free and penalty-free withdrawals on contributions, together

with tax-free withdrawals from earnings during retirement (as long as you are over 59 1/2 and have had the account for five years). While this makes conversion a smart choice for many people, there are still a number of important factors to consider before making a conversion. These include:

- When you make the conversion, you will have to pay tax on any earnings you've already achieved through your Traditional IRA and any of your pretax contributions. Do you have the money available to pay these taxes without tapping into the Traditional IRA itself?



- In general, the older you are the less attractive conversion becomes, since you will have less time to recoup what you lose in taxes on the conversion
- If you are planning to leave all of your IRA to your loved ones, conversion makes a great deal of sense. This is because Roth IRAs do not require minimum withdrawals during its owner's lifetime, meaning your heirs do not lose out on the opportunity for the account to compound without paying taxes after you turn 70 1/2. In addition, conversion to a Roth IRA will reduce your taxable estate by the amount of income tax you pay to convert, which in turn can reduce the estate tax burden on your loved ones
- If your tax bracket will drop significantly after retirement, say from 25 percent to 15 percent, converting now is not a good idea since you will have to pay taxes on the conversion at the higher rate

Clearly, there are many important factors to consider when choosing between Traditional IRAs and Roth IRAs, particularly in the area of conversion. Please contact us for sound advice on which approach is right for you and your family.

## THE SPECIAL NEEDS TRUST: A POWERFUL TOOL TO PROTECT A LOVED ONE WITH SPECIAL NEEDS.

For many families with a special needs child or adult, a special needs trust is one of the most important components of any estate plan. First and foremost, a properly designed special needs trust allows you to provide funds for better quality of life without jeopardizing eligibility for necessary government assistance. Let's examine the advantages of special needs trusts in a little more detail.

### Protecting eligibility for government assistance

If a special needs child or adult is in the process of applying for benefits, a special needs trust can help maintain eligibility because the special needs trust will prevent certain assets from being counted in the application process. If

the individual is already receiving government assistance, a special needs trust can ensure he or she will continue to receive an uninterrupted flow of services even if the individual receives certain assets as a gift or inheritance.

### Lower costs for healthcare services

Medicaid providers who have contracts with the state to provide Medicaid services generally deliver those services for much less than beneficiaries paying privately. In situations where the special needs trust must reimburse the state for services provided over the beneficiary's lifetime (the payback provision), reimbursement will be for this lower cost and free of any penalties or interest.

## Providing for supplemental needs

Special needs trusts are also known as supplemental needs trusts, and for good reason. A trustee's discretionary disbursements give the beneficiary indirect access to a fund that can provide for supplemental needs. In this way, your special needs loved one's level of care and quality of life can be improved dramatically. Trust funds can be used for things like:

- Medical procedures or therapies not available through government assistance
- Supplemental nursing home care and private companion services
- Geriatric care services
- Travel expenses
- Entertainment expenses such as movies, concerts or electronic equipment
- Fees for guardians and attorneys
- Other expenses, services or products not provided by a government assistance program

## Maximizing benefits for recipients of structured settlements

In personal injury cases, combining a special needs trust with a structured settlement can provide a second level of protection. While the structured settlement itself can provide the first level of protection by shielding proceeds from predators or the beneficiary's own inability to manage money effectively, the special needs trust can preserve eligibility for government assistance. This allows the structured settlement's payments to be maximized.

## Greater flexibility and freedom of choice when it comes to medical services

The beneficiary of a special needs trust can use services provided by Medicaid or the services of a specialist who doesn't accept Medicaid payments.

## Avoiding the stress, expense and frustration of guardianship

A properly designed special needs trust can avoid the need for a guardianship proceeding over property issues because trusts are recognized as a less restrictive means to guardianship. This in turn can protect the beneficiary from having to pay for the ongoing costs and formalities of maintaining a guardianship.



To learn more about the advantages of special needs trusts and how we can help you choose and design the one that is right for your special needs loved one, please call us for an initial consultation.

# HAVE YOU REVIEWED YOUR BENEFICIARY DESIGNATIONS LATELY?

Maybe it's an insurance policy you took out years ago. Or the retirement plan you set up with your employer the day you started working for the company. Or the IRA you have been scrupulously contributing to for two decades.

You created them all to protect your financial future and that of the people you care about most. But over time, your personal situation may have changed. Perhaps you have gotten divorced and remarried? Or one of your children has gotten married, and you are not exactly thrilled with your new son or daughter in law? The fact is, change is a part of

life. The question is, have your beneficiary designations kept pace with the changes in your life?

We understand that reviewing your designations is something that's easy to put off, the kind of chore you'll get to "any day now." The consequences of not doing so, however, can be catastrophic. At the very least, it will thwart your wishes regarding precisely who you want to receive your hard-earned assets after you are gone. As your estate planning counselor, we can't help but implore you—okay, maybe even nag you—to review your designations as soon as possible. Preferably today... right now!

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## LETTER TEXT HERE

Dear Friends:

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Sincerely,

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