LORD ABBETT

When to Sweat the Small Stuff

Beneficiary Planning and Inherited IRAs

NOT FDIC INSURED – NO BANK GUARANTEE – MAY LOSE VALUE

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Lord, Abbett Distributor LLC
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ACR # 113876

Important Information

The information in this presentation is being provided for general educational purposes only and is not intended to provide legal or tax advice. You should consult your own legal or tax advisor for guidance on regulatory compliance matters. The examples presented are hypothetical and are intended only for illustrative purposes.

Investments are neither FDIC-insured, nor are they deposits of, or guaranteed by, a bank or any other entity and involve investment risks, including possible loss of principal amount invested.

Combining and/or consolidating assets in an IRA rollover may involve the application of administrative fees and other charges to the investor.

Diversification and asset allocation cannot guarantee a profit or protect against loss in declining markets.

Investing involves risk, including the possible loss of principal.

Important Information (cont.)

Traditional IRA contributions plus earnings, interest, dividends, and capital gains may compound tax-deferred until you withdraw them as retirement income. Amounts withdrawn from traditional IRA plans are generally included as taxable income in the year received and may be subject to 10% federal tax penalties if withdrawn prior to age 59½, unless an exception applies.

Required minimum distributions (RMDs) must be taken from traditional IRAs by April 1 following the year that a person turns 70½. An RMD must be taken from the IRA in each subsequent year. Failure to take the required minimum distribution will result in a 50% penalty on the amount that was not distributed. Mandatory distributions that represent deductible contributions and all earnings are taxed as ordinary income. Mandatory distributions based on nondeductible contributions are tax-free.

Important Information (cont.)

A Roth IRA is a tax-deferred and potentially tax-free savings plan available to all working individuals and their spouses who meet the IRS income requirements. Distributions, including accumulated earnings, may be made tax-free if the account has been held at least five years and the individual is at least age 59½, or if any of the IRS exceptions apply. Contributions to a Roth IRA are not tax deductible, but withdrawals during retirement are generally tax-free.

Important Information (cont.)

A Stretch IRA is for investors who will not need their IRA money during their own retirement. While the law does not restrict which taxpayers can select the stretch IRA option, the stretch strategy is appropriate only for those individuals who simply need and plan to receive the required minimum withdrawals, taken at the latest time the law allows, without penalty, age 70½ .

The Lord Abbett Story

Founded in 1929, Lord Abbett is an independent, privately held money management firm.

We have a singular focus on the management of money.

100% of our revenues are derived from one activity—the management of money.

We view our business as the practice of a craft.

Our approach is not a commodity but a craft practiced by skilled and experienced professionals.

We are committed to the stewardship of our clients' assets.

We understand and accept the responsibility entrusted to us—and hold ourselves accountable for the results.

What Makes Us Different?

How we manage the firm

Our consistency of culture

- Driven by independent ownership
- Provides long-term perspective
- Fosters thoughtfulness, judgment, and insight
- Enables organizational stability

Our singular focus

- Promotes firm-wide integrity
- Driven to deliver a quality investment experience
- Shapes our organizational structure

What Makes Us Different? (cont.)

How we manage money

Our belief in active management

- More than 45 portfolio managers, with an average tenure of 18 years of industry experience*
- A team-based approach that seeks to actively exploit market inefficiencies

A commitment to research

- More than 70 investment professionals with specialized industry knowledge*
- Research analysts utilize fundamental and quantitative research to uncover timely investment opportunities

An adherence to risk management

- A process focusing on the balance between risk and reward
- Ongoing management of the appropriate exposure to company, industry, and economic events

*As of 09/30/2013.

Why Should I Care about IRAs?

Retirement Assets as of June 2013[1]

[1] Investment Company Institute, October 2013. Most recent data available.

[2] Winning in the D.C Market of 2015: New Realities Reshape the Competitive Landscape, McKinsey & Company, September 2010. Most recent data available.

Four Reasons Why Our IRA Is EASY

E A S Y

No Hidden Fees

- No annual custodial fees; no account set-up charges; no charges for paper statement

Fast Account Set-up

- User-friendly electronic applications; same day set-up with ACH electronic funding; free Fed Ex shipping for paperwork; tax refunds directly to IRAs

Simple Investment Selection

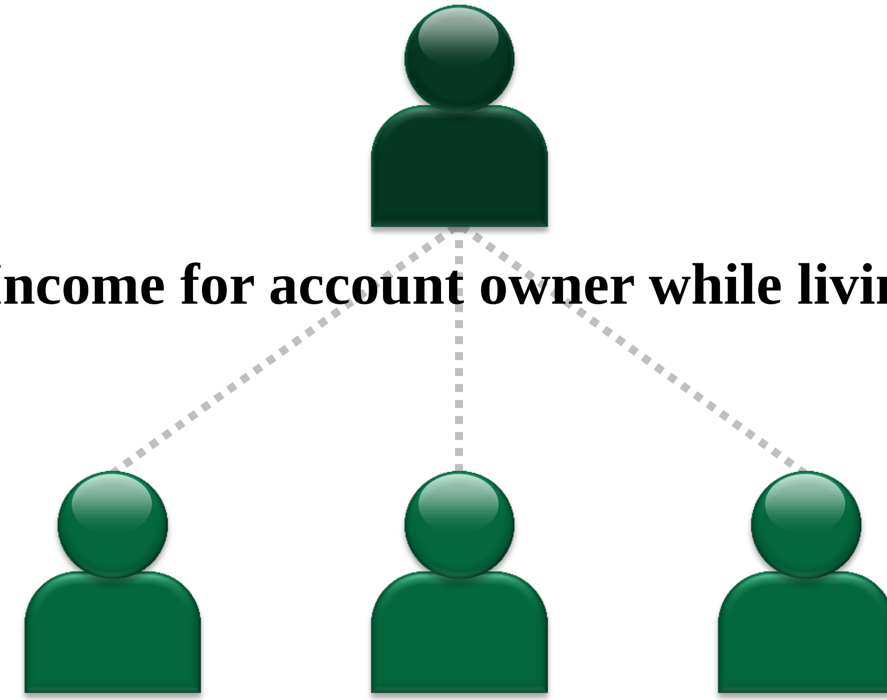
- Single fund allocation strategies and portfolio-building tools

Outstanding Client Service

- Dedicated advisor and investor call centers; industry-leading account statements and websites; private consultations with IRA experts; extensive IRA resources

Lord Abbett will waive (or otherwise pay) the yearly $10.00 custodial fee that would be charged each year on an ongoing basis to every new IRA account and, therefore, will not assess a custodial account fee in 2013 or any year afterward. Free also applies to the Federal Express (FedEx) charges currently absorbed by the B/D to submit paperwork to DST to open a Lord Abbett IRA account. Fund level fees and expenses are still applicable. Please see the current prospectus.

All IRAs Will Eventually Be Distributed



Income for account owner while living

and/or

Income for heirs

This material is exclusively for financial advisors only (registered representatives of broker/dealers or associated persons of Registered Investment Advisers). Not to be used with the public in written or oral form.

Agenda

- Common Beneficiary Errors
- Post Defense of Marriage Act Planning
- Naming a Trust
- Disclaiming
- Dos and Don’ts with Inherited IRAs
- Action Steps
- Additional Resources

Beneficiary Check-up: Qualified Assets

Assets in IRAs will pass to the next generation based on the beneficiary designation form!

Ask about all qualified accounts:

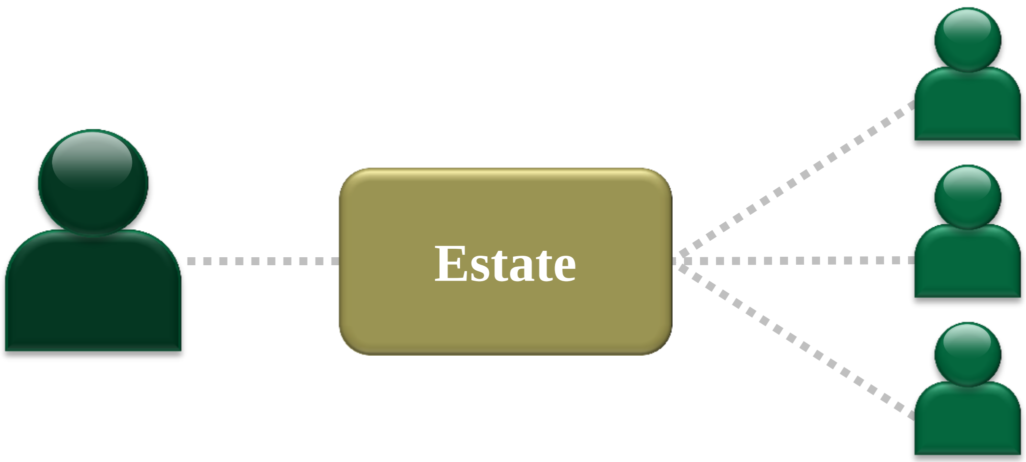
- Pension Plan (Defined Benefit, Money Purchase, etc.)
- 401(k)/Profit-Sharing Plan
- 403(b)/457 Plan
- IRA (including SEP and SIMPLE IRA)

Common Beneficiary Errors

Common Beneficiary Designation Errors

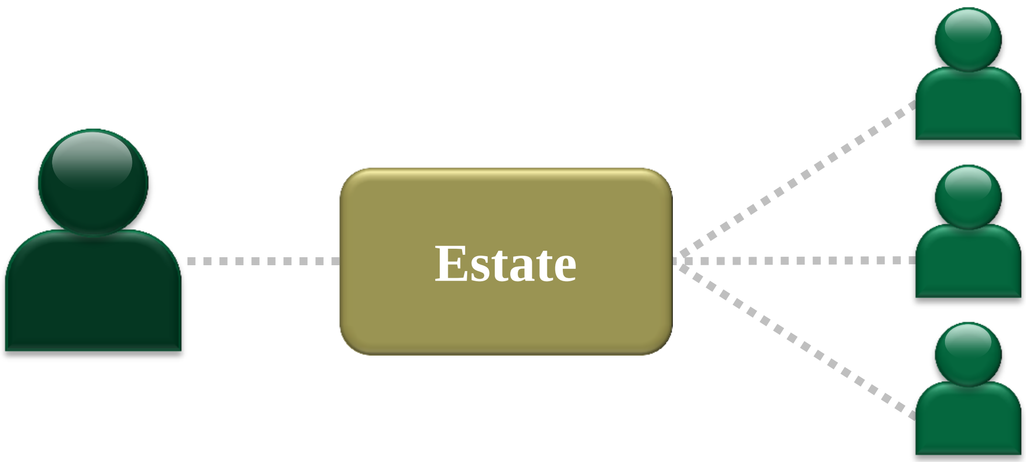
1. Estate
2. Failure to Name a Contingent Beneficiary
3. Naming a Nonperson as Beneficiary
4. Multiple Beneficiaries
5. IRA vs. Qualified Plan
6. Life-changing Events

1. The Estate (Named) as Beneficiary



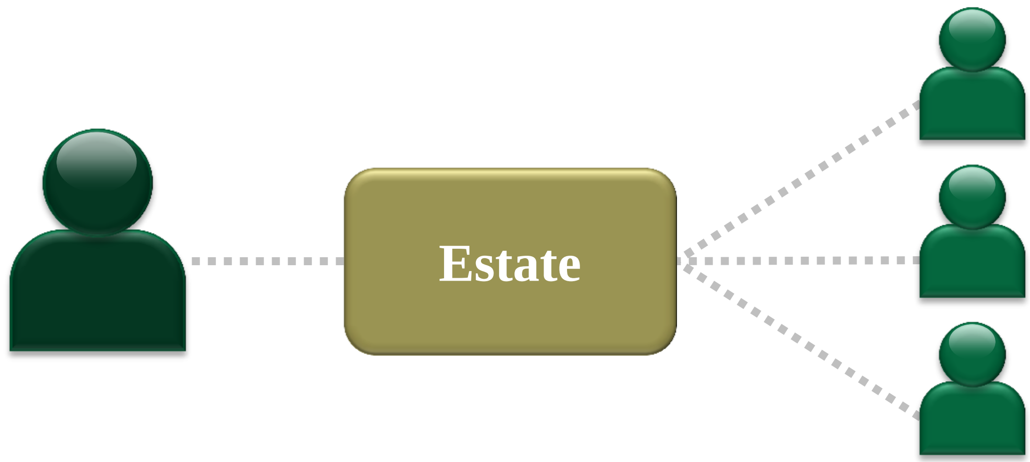
If an IRA is left to the estate (as beneficiary), the account owner has no designated beneficiary, even if all beneficiaries of the estate are individuals.

1. The Estate (Named) as Beneficiary (cont.)



Heirs eventually receive an IRA's proceeds, but not necessarily in the most tax-efficient manner.

1. The Estate (Named) as Beneficiary (cont.)

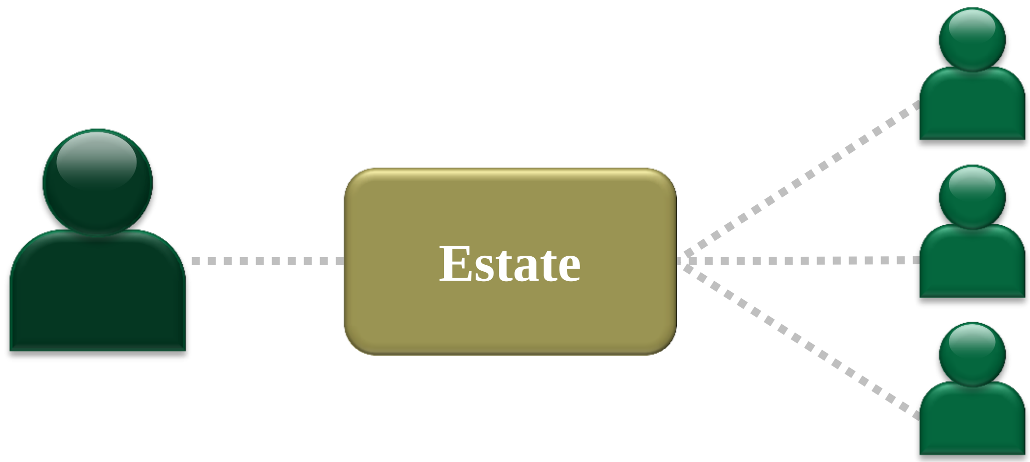


BEFORE

Death occurs **<u>before</u>** the required beginning date (RBD)—April 1 following age 70½

Entire account must be distributed on or before December 31 of the year that includes the fifth anniversary of death.

1. The Estate (Named) as Beneficiary (cont.)



After

Death occurs
<u>after</u> the RBD.

Account is distributed based on the account owner's remaining life expectancy.

1. The Estate (Named) as Beneficiary (cont.)

Charlie

Example:

- Charlie's mother,75, passes away when he is 50.
- He is the heir, but his parents named their estate as their IRA beneficiary.

1. The Estate (Named) as Beneficiary (cont.)

Charlie

Example:

	Estate Named as Beneficiary	Charlie Named as Beneficiary
Charlie's Current Age	50	50
Maximum Payout Years	13	34
Percentage Payout in Year 1	8.10%	3%

2. Failing to Name a Contingent Beneficiary

If the primary beneficiary pre-deceases the account owner…

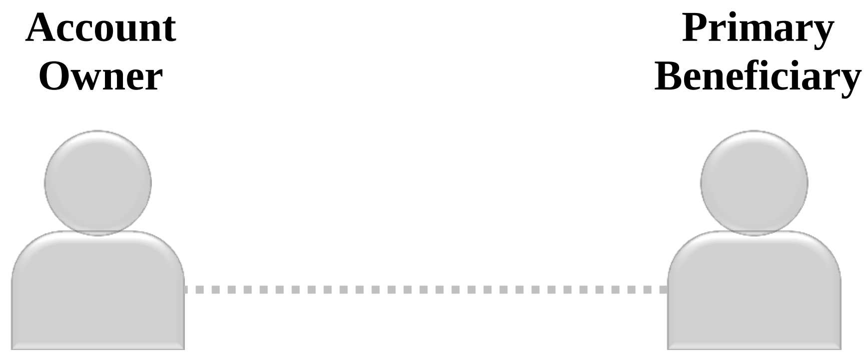
then IRA custodial account's terms govern.

2. Failing to Name a Contingent Beneficiary (cont.)

If the account owner and the primary beneficiary (spouse) die simultaneously, and it's determined that the beneficiary died first…

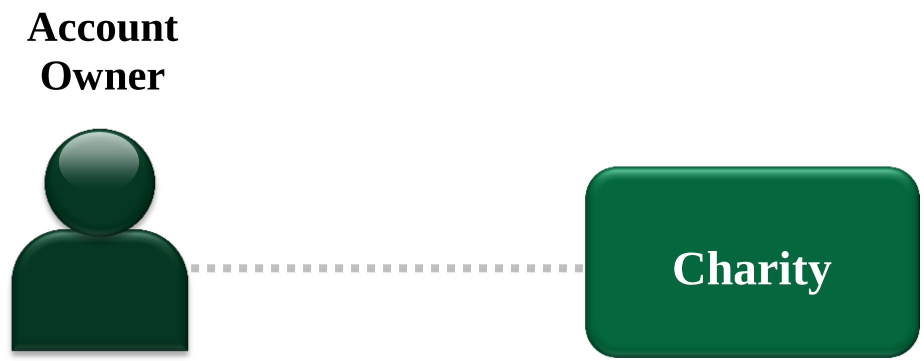
…then the IRA custodial account's terms govern, as there was no beneficiary.

2. Failing to Name a Contingent Beneficiary (cont.)



If no beneficiary is named,
the “Stretch” option may be lost.

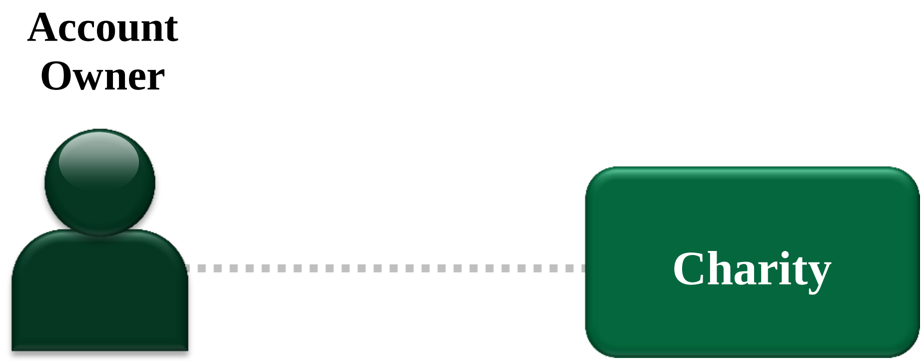
3. Naming a Nonperson (Charity) as Co-beneficiary



Naming a non-person (e.g., charity) on the same IRA account as a person triggers rules that…

may eliminate potential to spread payments ("stretch") over a human beneficiary's life expectancy.

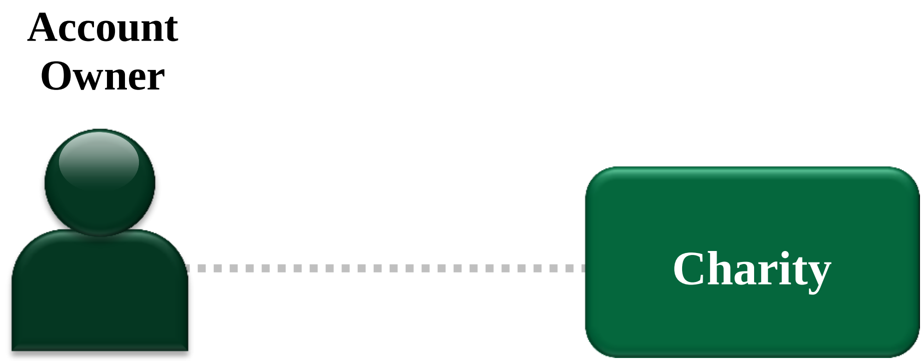
3. Naming a Nonperson (Charity) as Co-beneficiary (cont.)



Action must be taken so that the IRA custodian is able to pay out the nonperson's full interest by…

…September 30 ("designation date") of the year following death.

3. Naming a Nonperson (Charity) as Co-beneficiary (cont.)



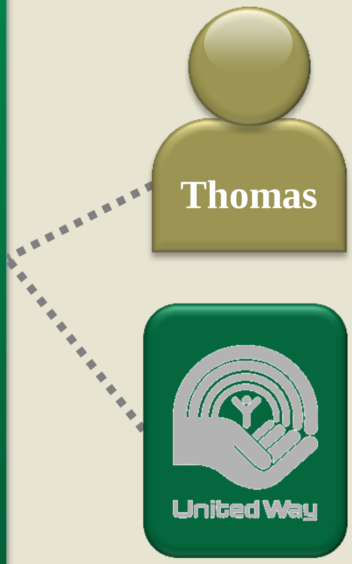
If a nonperson's account is <u>not</u> paid in full by the designation date, then …

… proceeds must be fully distributed by December 31 of the year that includes fifth anniversary of death ("five-year" rule).

3. Naming a Nonperson (Charity) as Co-beneficiary (cont.)

Margaret

Example:

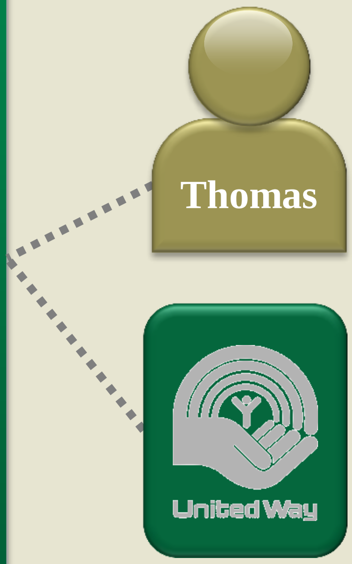


- Margaret designates United Way and her son Thomas as 50/50 primary beneficiaries of her IRA.
- Margaret died in August 2013.

3. Naming a Nonperson (Charity) as Co-beneficiary (cont.)

Margaret

Example:



- United Way must be fully paid out by September 30, 2014, or Thomas will lose the ability to stretch out the payments over his life expectancy.
- IRAs should, but are not required to, be split prior to death.

3. Naming a Nonperson (Charity) as Co-beneficiary (cont.)

Margaret

Example:

- What if the charity drags its feet in completing its paperwork?
- What if Thomas thinks everything is moving along and it's not?

4. Multiple Beneficiaries

Steven Douglas

Hypothetical Case Study:

- Steven Douglas has just passed away at age 75, leaving a $300,000 IRA.

- He named his three sons—Robert, Richard, and Ernest—as equal beneficiaries.

4. Multiple Beneficiaries (cont.)

Steven Douglas

Hypothetical case study:

What are their options?

4. Multiple Beneficiaries (cont.)

Steven Douglas

Hypothetical case study:

- Distributions **<u>must</u>** begin by December 31 of the year following Steven's passing ("Stretch").

4. Multiple Beneficiaries (cont.)

Steven Douglas

Hypothetical case study:

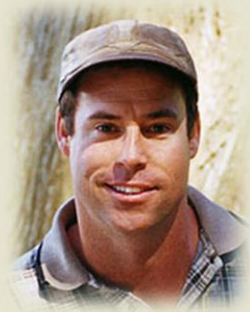
His beneficiaries can:

1. Take distributions from a single inherited IRA, or
2. Split into three separate inherited IRAs.

4. Multiple Beneficiaries (cont.)

Steven Douglas

Hypothetical case study:



What is the difference?

4. Multiple Beneficiaries (cont.)

Steven Douglas

Option 1: Take Distributions from One IRA

All three beneficiaries must take distributions based on the life expectancy of the oldest beneficiary.

Son	Current Age	Years for Payout (IRS life expectancy)	Total Payout (assumed 8% return)*
Robert	50	34.2	$182,453
Richard	45	34.2	$182,453
Ernest	40	34.2	$182,453
Total Payout			$547,359

*This hypothetical example assumes an average annual rate of return of 8%, and the minimum payout per year can be projected over Robert's life expectancy: 34.2 years. This illustration does not take into account the effect of inflation, which can erode the value of an investment over time. It also assumes current tax laws remain in effect throughout. If tax laws change in the future, distribution amounts would be different. Due to market volatility, an investor's actual rate of return will vary and an investor may not experience similar results.
Source: CalcXML. Based on IRC Regulation 1.401(a)(9). www.lordabbett.com/advisor/RetirementCalculator/StretchIRA.

4. Multiple Beneficiaries (cont.)

Steven Douglas

Option 2: Split into Three IRAs

Now, each son can take distributions based on his own life expectancy.

Son	Current Age	Years for Payout (IRS life expectancy)	Total Payout (assumed 8% return)*
Robert	50	34.2	$182,453
Richard	45	38.8	$235,699
Ernest	40	43.6	$308,543
Difference from Option 1:		$179,336	$726,695

*This hypothetical example assumes an average annual rate of return of 8% and the minimum payout per year can be projected over Robert, Richard, and Earnest's life expectancy, respectively, 34.2, 38.8, and 43.6 years. This illustration does not take into account the effect of inflation, which can erode the value of an investment over time. It also assumes current tax laws remain in effect throughout. If tax laws change in the future, distribution amounts could be different. Due to market volatility, an investor's actual rate of return will vary and an investor may not experience similar results.

Source: CalcXML. Based on IRC Regulation 1.401(a)(9). www.lordabbett.com/advisor/RetirementCalculator/StretchIRA.

5. IRA versus Qualified Plan Beneficiary Rules

Qualified Defined Contribution Plans	IRAs
Qualified defined contribution plans (e.g., 401(k)) require the spouse to be the sole designated beneficiary. • Naming any other person requires a spousal waiver: – Written form – Witnessed by a notary public	**IRAs generally have no applicable spousal consent rules.** • Exception: community-property states

6. Failure to Communicate (Life-changing Event)

Have any life changes occurred?

- Marital status (marriage, divorce, remarriage)
- Death of primary beneficiary
- New children/grandchildren/adoption
- Moving to or from a community property state

Post Defense of Marriage Act Planning

Post Defense of Marriage Act Planning

Supreme Court Impact!

United States vs. Windsor

IRAs

- Contribution and Deduction Limits
- Spousal IRA Benefits
- Spousal Rollover
- More Favorable RMD Rules
- Additional Exceptions
- Attribution

Post Defense of Marriage Act Planning

Supreme Court Impact!

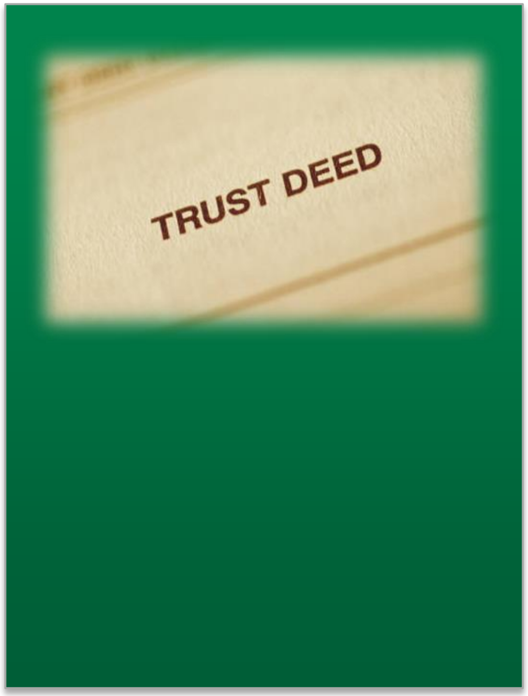
United States vs. Windsor

Qualified Plans

- Qualified Joint & Survivor Annuity (QJSA)
- Qualified Pre-Retirement Survivor Annuity (QPSA)
- Hardship Distribution
- Qualified Domestic Relations Order (QDRO)
- Required Minimum Distributions (RMDs)
- Attribution
- Beneficiary Planning

Naming a Trust

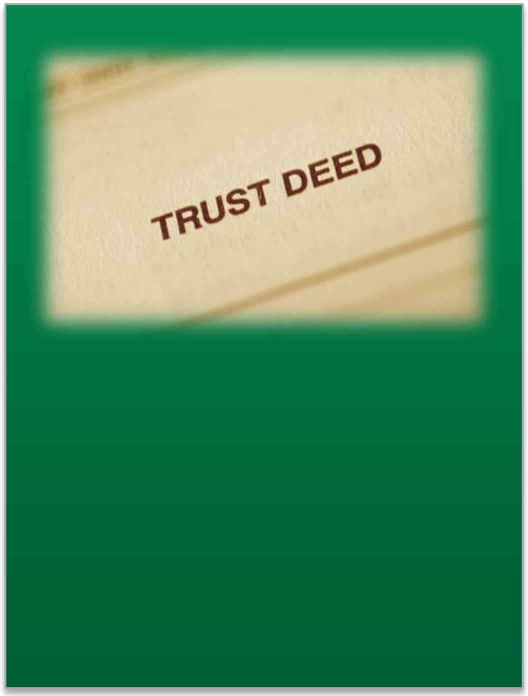
Naming a Trust



Naming a trust (permitted) but:

- Must follow strict IRS guidelines

Naming a Trust (cont.)

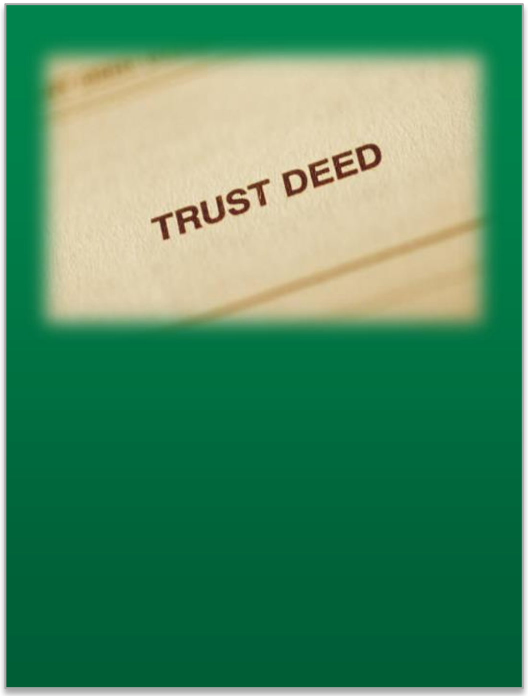


Naming a trust (permitted) but:

- “Look-through” or “see-through” trust

  1. Must be valid under state law.
  2. Must be irrevocable at death.
  3. Beneficiaries must be identifiable.
  4. Trust document must be provided to the custodian by **October 31** of the year after the account owner’s death.

Naming a Trust (cont.)

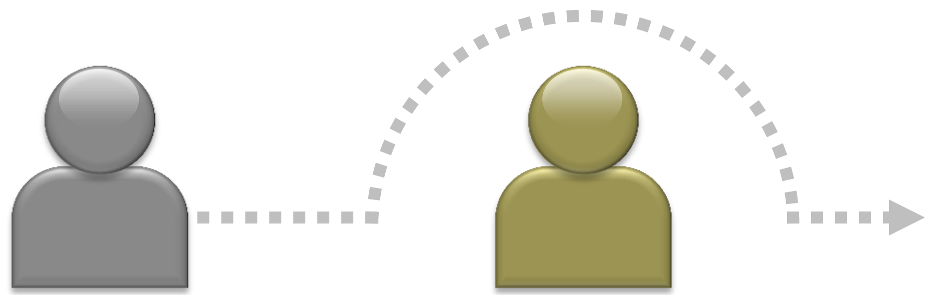


Naming a trust (permitted) but:

- All beneficiaries must be individuals.
- Multiple trust beneficiaries should be relatively close in age.

Disclaiming

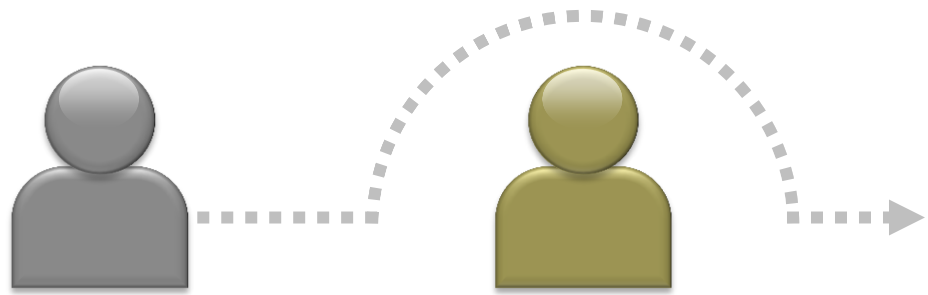
Disclaimer



What is a disclaimer?

- Formal refusal to accept an inheritance
- Disclaiming of inherited retirement assets can be useful in post death planning
  - Know who will inherit account before disclaiming.

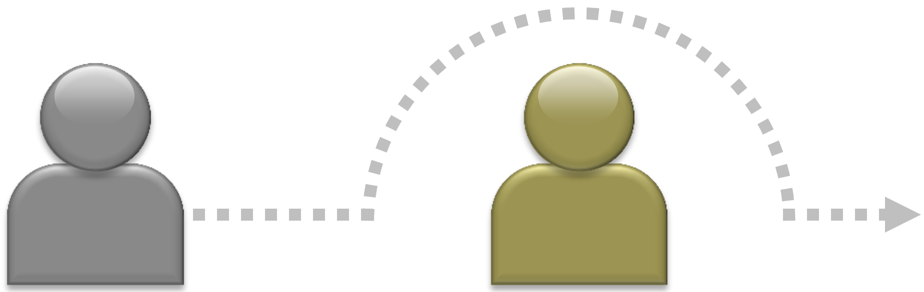
Disclaimer (cont.)



What is a disclaimer?

- Disclaimer is a legal document that must be irrevocable and in written form.
- The person who is disclaiming cannot have previously "accepted" the benefits.
  - Includes: taking distributions, transferring and/or re-titling the account, making investment changes

Disclaimer (cont.)



DISCLAIMER DEADLINE:

Written disclaimer must be delivered to the custodian within nine months of the IRA account owner's death.

Dos and Don’ts with Inherited IRAs

Get to Know Rules Pertaining to Inherited IRAs

According to a recent study, baby boomers stand to inherit a substantial amount of money from their parents.

*Source: Center for Retirement Research at Boston College, January 2011.

Get to Know Rules Pertaining to Inherited IRAs (cont.)

Just how big is this opportunity?

$8.4 trillion*

*Source: Center for Retirement Research at Boston College, January 2011.

Inheriting Decisions (Non-Spouse Beneficiary)

You've inherited an IRA.

What now?

Inheriting Decisions (Non-Spouse Beneficiary) (cont.)

Non-spouse beneficiaries have choices upon inheriting an IRA.

1 Liquidate the IRA immediately.

- Entire amount (minus basis*) will be subject to income tax
- 10% penalty **does not** apply

2 Begin taking distributions (based on beneficiary's life expectancy) **no later** than December 31 of the year following the account owner's death ("**Stretch**").

3 If distributions are not initiated, the IRA **must** be liquidated by December 31 of the fifth year following death ("**five-year rule**").

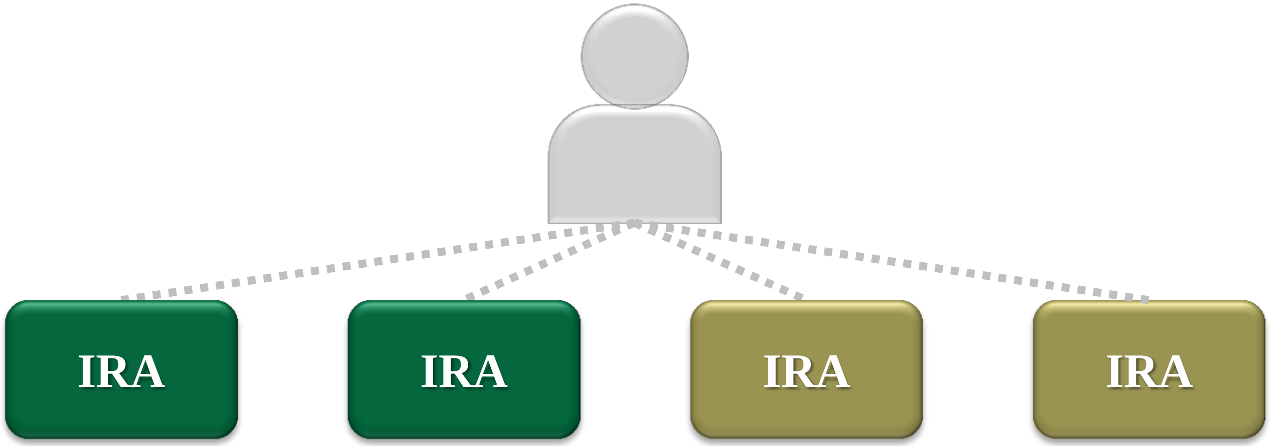
*The tax basis of an IRA refers to the after-tax contributions made to IRA accounts. Roth IRAs have a tax basis equal to the amount of contributions because all Roth IRA contributions are non-deductible.

Inheriting Decisions (Non-Spouse Beneficiary) (cont.)

Non-spouse beneficiary:
What not to do!

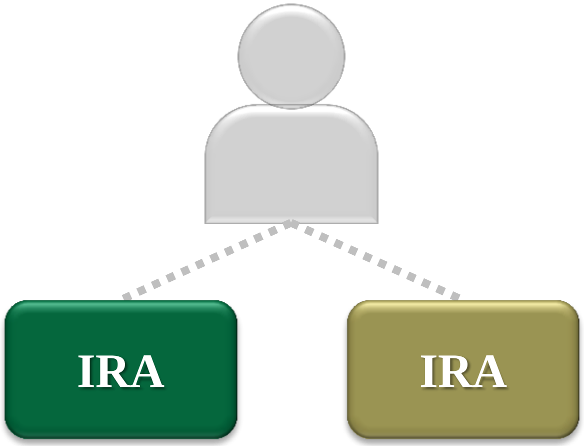
1. Non-spouse cannot roll over a distribution (60-day rollover not permitted).
2. Non-spouse beneficiary cannot convert an inherited IRA to a Roth IRA.
3. Non-spouse beneficiary cannot roll an inherited IRA to their own IRA.

Inheriting Decisions (Non-Spouse Beneficiary) (cont.)



IRAs inherited from the same decedent can be aggregated with IRAs of the same type from that same decedent.

Inheriting Decisions (Non-Spouse Beneficiary) (cont.)



**Post-death IRA-to-IRA
“trustee-to-trustee”
transfers are permitted!**

Inheriting Decisions (Non-Spouse Beneficiary) (cont.)

Upon account owner's death, IRA ownership immediately passes to the beneficiary.

Inherited IRA should be retitled:

JAMES JONES, IRA DECEASED (JANUARY 2, 2013)

F/B/O: JOHN JONES, BENEFICIARY

Use beneficiary Social Security number (not decedent)

Inheriting Decisions (Spousal Beneficiary)

Spousal beneficiary:
Now what?

Inheriting Decisions (Spousal Beneficiary) (cont.)

1

Spousal rollover

- Surviving spouse does ***not*** have to be sole beneficiary.
- Permitted whether the deceased spouse died before or after taking RMDs

2

Elect to treat deceased spouse's IRA as the surviving spouse's own IRA

- Election can be made any time after the account owner's death.
- Surviving spouse must be sole beneficiary

3

Remain a beneficiary

- Account owner dies prior to their RBD and the spouse is the **sole** beneficiary, RMDs (to the surviving spouse) do not have to begin until the later of:

  1) year following the year in which the account owner died, **or**

  2) year in which the account owner would have reached 70½.

Action Steps

Action Steps

Conduct a beneficiary review for all your clients!

Ask about all retirement accounts, not just IRAs:	Look for situations where you can help:
Have they left any retirement plans behind?	Life changes
How would they like the assets to be passed?	Multiple IRAs
How much control do they want for heirs?	Multiple beneficiaries Age differential • Non-individual (estate, charity)
	Qualified plans vs. IRA beneficiary rules
	Post DOMA Beneficiary Planning

Additional Resources

Leverage Our Experts!

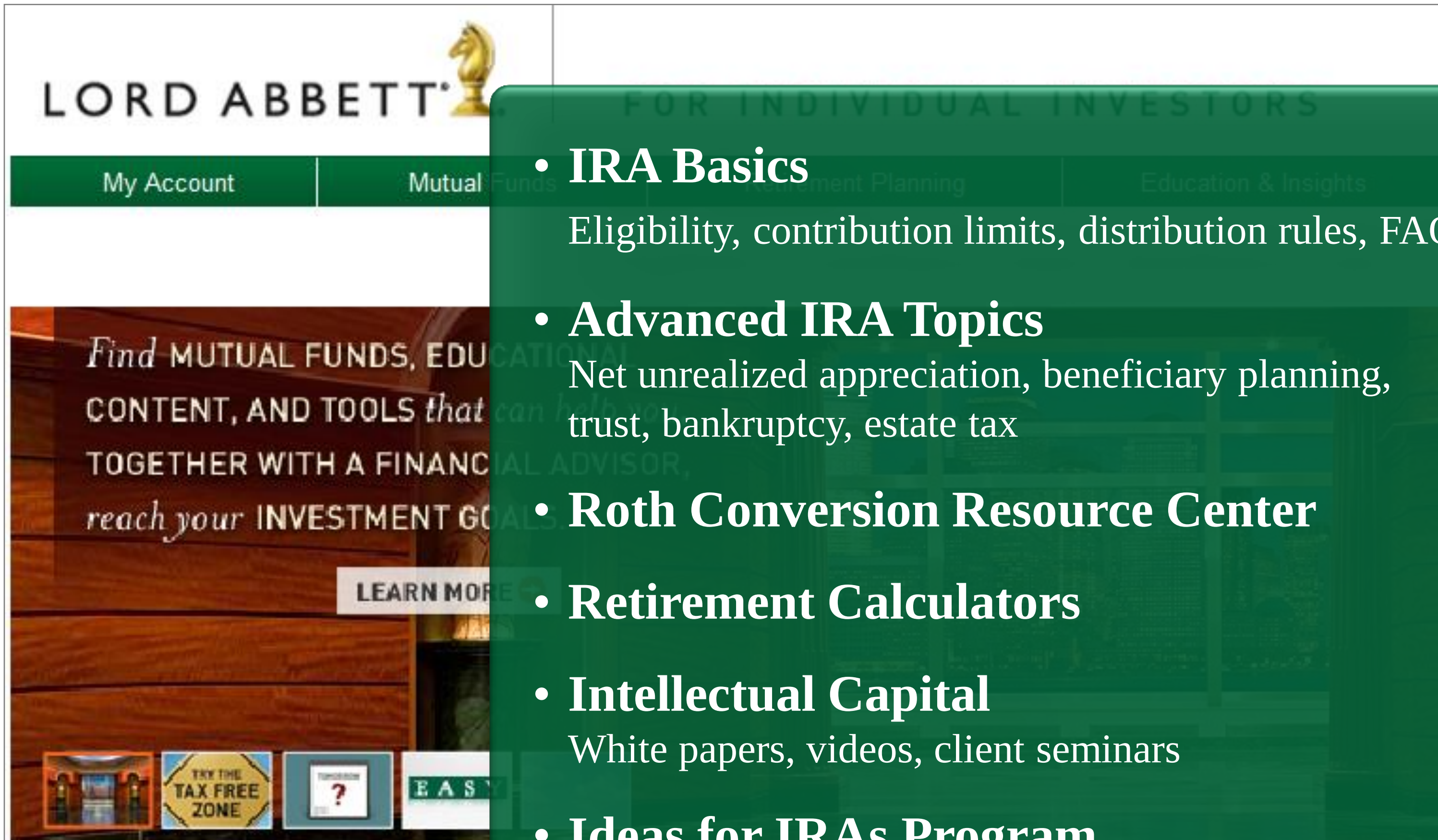
Brian Dobbis,
QPFC, QPA, QKA, TGPC
Retirement Analyst

Our experts are available to discuss the following topics:

- IRA strategies
- Qualified retirement plans
- Fiduciary questions
- Converse with prospects, clients, CPAs
- Public seminars
- Prospecting ideas

888-522-2388

Retirement Resource Center



- **IRA Basics**
  Eligibility, contribution limits, distribution rules, FAQs
- **Advanced IRA Topics**
  Net unrealized appreciation, beneficiary planning, trust, bankruptcy, estate tax
- **Roth Conversion Resource Center**
- **Retirement Calculators**
- **Intellectual Capital**
  White papers, videos, client seminars
- **Ideas for IRAs Program**

The Ideas for IRAs Program

IDEAS for IRAs
FRESH INSIGHTS. NEW BUSINESS.

This is an "end-to-end" IRA prospecting program created to give advisors compelling ideas to pinpoint rollover opportunities.

It includes:

- An extensive and ever-growing list of ideas to approach new rollover candidates
- Access to new, qualified IRA prospects through our award-winning, online business intelligence tool, **Insights & Intelligence**
- Call scripts, educational resources, and solutions to take you from conversation to application

Questions

CALL US WITH QUESTIONS:

888-522-2388

Website
www.lordabbett.com/advisor

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