

## Consider Wealth Transfer Issues When Designating Your Beneficiaries

Approximately \$16.6 trillion in assets are currently held in retirement accounts throughout the United States.\* For an increasing number of families, these accounts will represent a significant portion of their wealth. We believe this requires these families to focus not only on investment returns and asset allocation, but also on a host of wealth transfer issues associated with individual retirement accounts.

Clients must integrate a wide variety of planning concerns, including income tax planning, estate tax planning, and wealth disposition planning, into the decision making process when dealing with retirement accounts. These decisions will then need to be monitored periodically to ensure the strategies are consistent with evolving goals and objectives. The larger a retirement account, the more important these decisions become in an integrated wealth management strategy.

### How Do Individual Retirement Accounts Function During a Lifetime

The largest incentive for accumulation of assets in retirement accounts is the ability to invest inside the account without current taxation of income on the profits. However, once an account owner reaches age 70½, he or she must start taking minimum distributions from the account. The minimum distributions are typically calculated by dividing the sum of the owner's retirement account balances from the prior year-end with the distribution period as prescribed by the internal revenue code. The result is a first year distribution requirement of a little over 3.5% of the prior year's account balance with an increasing minimum distribution requirement each year. This requirement is a minimum requirement, with the minimum distribution amount subject to the ordinary income tax rates of the recipient. An account owner may take more than the minimum if desired and may begin distributions, without penalty, at as early as 59½. While the distribution decisions are certainly need-based and planning-based, it is important to note that assets which remain in the account continue to receive the benefit of tax-deferred profits.

### Don't Place You and Your Family in the Tax Vacuum

It is very easy to get caught up in the tax vacuum when planning with large retirement accounts. Deferring distributions or designating a beneficiary for the sole purpose of maximizing a tax benefit may have the unintended result of modifying an entire wealth transfer strategy. A thorough review of all relevant issues affecting the transfer of wealth, including income taxes,

#### REQUIRED MINIMUM DISTRIBUTION PERCENTAGE\*\*

OWNER'S AGE	PERCENTAGE
70	3.6496%
71	3.7736
72	3.9063
73	4.0486
74	4.2017
75	4.3668
76	4.5455
77	4.7170
78	4.9261
79	5.1282
80	5.3476

\*\*Sample required minimum, distributions will apply in circumstances where owner's and beneficiary's ages are within 10 years of each other.

\* Source: Investment Company Institute, "The U.S. Retirement Market, Third Quarter, 2010." U.S. retirement account assets referenced are as of 9/30/2010.

estate taxes, family dynamics, and personal goals and objectives, should be completed prior to finalizing planning decisions. Issues that routinely need to be addressed include: the personal goals and objectives of the account owner, income tax brackets (both current and future) marital status of the account owner, the makeup of non-retirement assets of the account owner and ages and family status of prospective beneficiaries.

## The Beneficiary Designation, Building a Bridge

Careful consideration when making beneficiary designations may significantly improve the chances of minimizing taxes and meeting personal goals and objectives as wealth transfers to family members. Retirement assets transfer to spouses and children via the terms and limitations contained in the beneficiary designation. A well thought-out estate plan with efficiently constructed wills

*Commonly referred to as a “spousal rollover,” the designation of the surviving spouse as beneficiary will maximize the income tax deferral of a retirement account.*

and trusts can be ineffective if not coordinated with the beneficiary designations of a retirement account. A bridge needs to be built to ensure the estate planning documents and beneficiary designations are working together to achieve family goals and objectives.

## Spouse as Beneficiary

A surviving spouse is the only beneficiary who may treat a retirement account as his or her own upon the death of the owner. Commonly referred to as a “spousal rollover,” the designation of the surviving spouse as beneficiary will maximize the income tax deferral of a retirement account. In addition, assets left to a surviving spouse pass estate tax free. However, it is very important to consider this choice in terms of estate tax planning goals and family planning objectives. Designating a surviving spouse, particularly in a second

marriage situation, may have unintended wealth transfer results. A surviving spouse would be free to designate whomever he or she chooses as the beneficiary of the newly created rollover IRA. This may be an efficient mechanism in traditional family situation, but we believe more thought-out decisions should be made in second marriage situations. Often, trusts for second spouses are utilized. This strategy allows an IRA owner to provide for a surviving spouse during his or her lifetime, but gives the peace of mind of knowing assets will eventually pass to children. The income tax benefits are not maximized in this scenario, but the disposition results can be more accurately controlled by the IRA owner.

## Funding a Credit Shelter Trust with IRA Assets

Many couples will find themselves with large individual retirement accounts and minimal additional assets available to fund credit shelter trusts on the first spouse’s passing. A wide variety of concerns often influence how assets are held or titled, including creditor protection issues, income tax issues and estate tax issues. Attempting to maximize the efficiencies of each of these areas is rarely possible. In certain situations, incorporating a credit shelter trust into a beneficiary designation for a large retirement account will sacrifice some long-term income tax efficiencies but may capture significant estate tax efficiencies. This is a prime example of avoiding the income tax vacuum when designating beneficiaries, as well as an example of how careful analysis—and some compromise—can lead to a positive result for families.

Federal tax legislation enacted in December 2010 introduced the concept of “portability” of estate tax exemption amounts between spouses. This makes planning with large retirement balances much easier. While the 2010 legislation expires on December 31, 2010, the portability language is expected to survive and be included in any new legislation.

## Trusts for Young Beneficiaries

Families may implement sophisticated estate planning strategies to prevent young children from gaining access to funds prior to reaching an age which they are deemed fiscally responsible. Designating children as beneficiaries (whether primary or contingent) of a retirement account may circumvent well-drafted estate planning documents and can result in large sums being available to children at ages as young as 21.

Naming trusts for the benefit of young children in lieu of naming children outright is a very efficient wealth management tool. With properly structured estate planning documents and beneficiary designations, trusts can capture the same long-term income tax benefits as having named the children outright, while restricting access to funds until predetermined ages.

## Review Beneficiary Designations

There are significant planning opportunities and pitfalls when dealing with beneficiary designations of large retirement accounts. The retirement account area has seen significant legislative changes in the recent past and there are expectations of even more to come in the future. This ever-changing legislative landscape, coupled with the evolving nature of family's goals and objectives, necessitates periodic reviews of beneficiary designations. A retirement account owner can ill afford to simply fill out a form and file it away.

Beneficiary designation decisions can significantly impact a family's wealth transfer program. When strategically planned, these decisions could maximize tax benefits while meeting a family's wealth transfer goals and objectives. Calamos Wealth Management would be pleased to assist you with any questions or issues you may have with your beneficiary designations.

## Calamos Wealth Management

We take a personalized approach to wealth management by developing solutions tailored to our clients' unique goals and circumstances. Because wealth management is a long-term endeavor, we tailor our services to each client's evolving needs, including:

- > Individualized portfolios managed according to each client's goals
- > Ongoing asset allocation, including strategic rebalancing according to client investment objectives
- > Comprehensive wealth counseling solutions
- > Wealth distribution plans designed to meet specific cash flow needs
- > Alternative investment programs for qualified investors
- > Coordination with professional advisors specializing in tax, estate, business succession and gift planning

We encourage you to contact us to discuss these and any other topics relating to the accumulation, preservation and transfer of your family's wealth. Please call 888.857.7604 or email [cwm@calamos.com](mailto:cwm@calamos.com).

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# CALAMOS®

**Calamos Wealth Management LLC**

2020 Calamos Court  
Naperville, IL 60563-2787

888.857.7604

[www.calamos.com](http://www.calamos.com)

[cwm@calamos.com](mailto:cwm@calamos.com)

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