

OUTRIGHT DISTRIBUTION TO SURVIVING SPOUSE VS. ACCUMULATION QTIP TRUST ARRANGEMENT

PERTINENT INFORMATION

"Example 73"

- Mr. Kugler (age 60) has \$1,000,000 in an IRA.
- Mrs. Kugler (age 60) is the designated beneficiary (DB) and their son (age 30) is the contingent beneficiary.
- Mr. Kugler's will provides for a QTIP trust that pays all trust income to Mrs. Kugler during her lifetime. At Mrs. Kugler's death the their son is the remainder beneficiary.
- Mr. Kugler is considering naming the QTIP trust as the beneficiary of his IRA.
- If he does implement this change, the IRA beneficiary designation will be structured to pay the greater of the Minimum Required Distributions (MRD's) or the income earned on the IRA assets to the QTIP trust.

GOALS AND OBJECTIVES

- Mr. and Mrs. Kugler want to minimize their lifetime distributions in order to maximize the IRA accumulations and the duration of the stretch out to their son.
- Mr. Kugler wants to compare the duration of the IRA stretch-out to name Mrs. Kugler as the DB vs. naming the QTIP trust as the DB.
- For purposes of the comparison, Mr. Kugler wants to assume that his death occurs during the current year and Mrs. Kugler survives an additional 20 years to age 80.

PROPOSED ARRANGEMENT

- Mr. Kugler should continue to name Mrs. Kugler as the DB.

RESULTS AND BENEFITS

- If at Mr. Kugler's death, Mrs. Kugler is named the outright DB of the IRA:**
 - Mrs. Kugler (age 60) will roll the IRA to her name, become the new IRA owner and name their son as the DB.
 - As the new owner her, Required Beginning Date (RBD) will be in 10 years when she reaches age 70½. As a result, there will be no MRD's for 10 years.
 - At age 70½ she will take MRD's under the favorable Uniform (joint life) Table for 10 years until her assumed death at age 80.
 - The joint life table produces lower MRD's and allows greater IRA accumulations during Mrs. Kugler's lifetime.
 - Assuming Mrs. Kugler dies at age 80, her son (DB) would be age 51 in the year following her death. Since the son would inherit the IRA, he will be the DB.
 - As a result, the duration of the IRA payout would be based on the 33.3 year life expectancy for age 51.

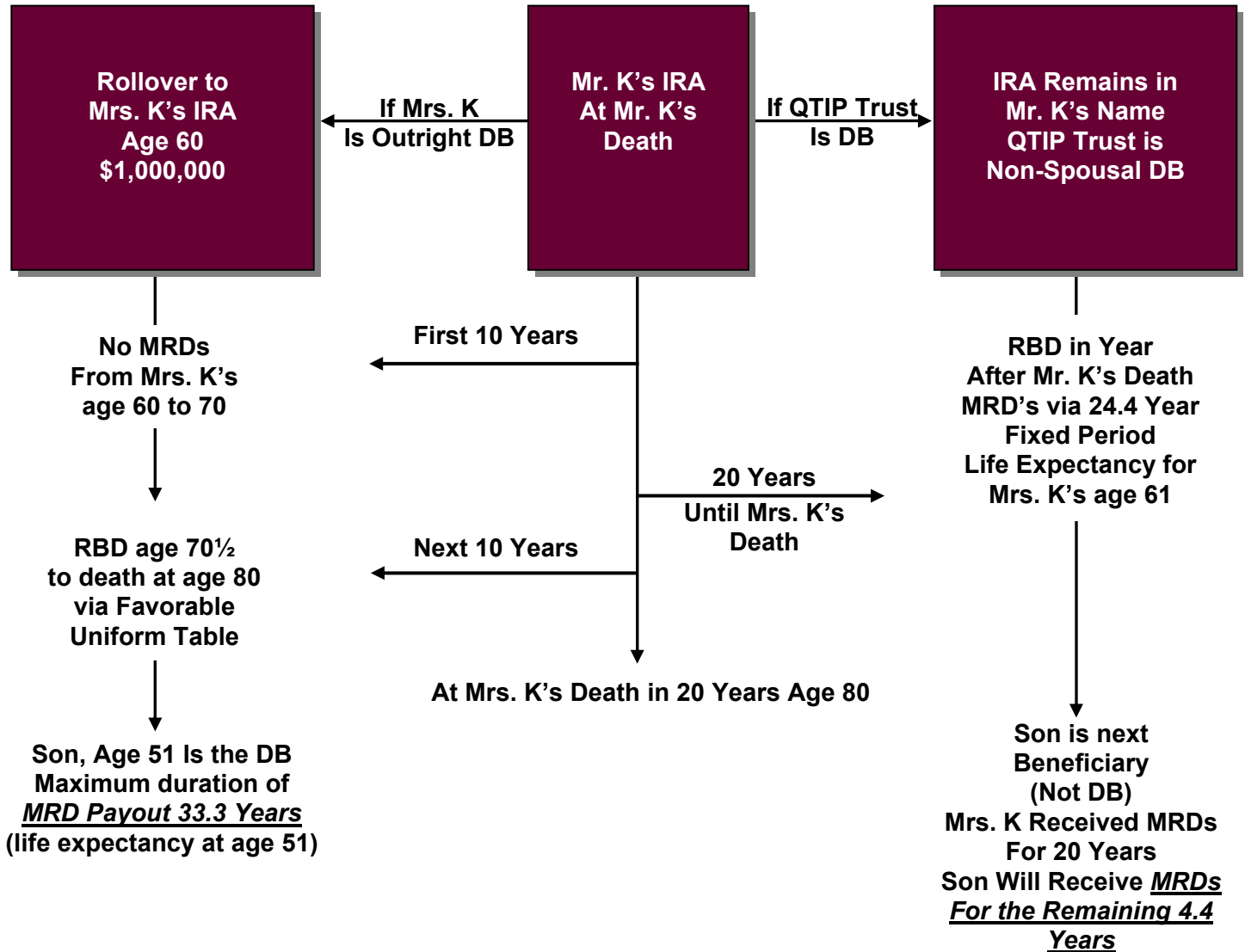
- ❑ **If at Mr. Kugler's death the accumulation QTIP trust is the DB of the IRA:**
 - ❑ You must look through the trust to determine the trust beneficiaries.
 - ❑ In this case the trust has two beneficiaries.
 - ❑ The surviving spouse must be the sole trust beneficiary during her lifetime to allow the QTIP trust to qualify for the estate tax marital deduction.
 - ❑ The son is the so-called "remainder beneficiary" of the QTIP trust, and entitled to the IRA distributions at Mrs. Kugler's death.
- ❑ Next we want to determine if the accumulation QTIP trust qualifies as the spousal DB of the IRA. If she does, she is treated more favorably than a non-spousal DB.
 - ❑ The IRA will pay the greater of the income earned on the trust assets, or the MRD to the QTIP trust.
 - ❑ Under the terms of the "accumulation" QTIP trust, Mrs. Kugler is only entitled to the income earned on the trust assets.
 - ❑ Note: Income is usually defined in the trust document. Many state laws allow a total return trust to provide that income includes capital appreciation. Some states allow income to be a stated percentage of the trust assets.
 - ❑ If the MRD is greater than the income earned, the MRD will be paid to the QTIP trust. However, the excess over the income amount will not be paid to Mrs. Kugler. It will accumulate in the trust and will ultimately be distributed to the son at Mrs. Kugler's death.
 - ❑ Since Mrs. Kugler is not entitled to the entire IRA distribution during her lifetime, the QTIP trust is considered a non-spousal DB.
- ❑ The RBD for a non spousal DB is the year following the death of the IRA owner. The MRD's will be based on the age of the oldest trust beneficiary (Mrs. Kugler). At age 61, Mrs. Kugler's single life expectancy is 24.4 years.
 - ❑ Therefore, the maximum duration of the MRDs will be for a fixed period of 24.4 years. The payout for year one would be one divided by 24.4 years (4.1%), for year two it would be one divided by 23.4 years or 4.3%. In subsequent years you simply subtract one year and repeat the process.
 - ❑ Assuming Mrs. Kugler dies at the end of 20 years at age 80, the payout to the son would continue for the remainder of the 24.4 year period. That's just 4.4 years.
- ❑ Of course, there is a substantial difference in the duration of the payout to the son. In one case, there is a 33.3 year stretch out (under the outright to the surviving spouse arrangement where the son becomes the DB and measuring life). In the other, there is a 4.4 year stretch-out (under the accumulation QTIP trust arrangement where Mrs. Kugler is the DB and the measuring life).

Example: Mr. K age 60 dies with \$1,000,000 in IRA.

Mrs. K is age 60 and their son is age 30.

Mrs. K dies in 20 years at age 80. Assume the MRD for year of Mrs. K's death was paid prior to her death.

Duration of MRDs at Mr. K's Death and Mrs. K's Subsequent Death



□ Note: If the trust were a credit shelter rather than a QTIP trust, the results would be exactly the same.