



YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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This recent edition of my newsletter should answer a lot of questions for you. Please don't hesitate to call if I can clarify anything.

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Inheriting Retirement Assets: What You Need to Know

Your options in managing assets that you inherit from a loved ones qualified retirement plan may depend on the type of retirement plan in question and your relationship to the deceased.

As Medical Expenses Rise, Funding an HSA Could Help

As medical costs and insurance premiums rise, the need to save specifically for health care grows more and more important. Get the facts about Health Savings Accounts and determine if opening one may be a good move for you and your family.



Inheriting Retirement Assets: What You Need to Know

Your options in managing assets that you inherit from a loved one's qualified retirement plan may depend on the type of retirement plan in question (401(k)/403(b) plan or IRA) and your relationship to the deceased.

Employer-Sponsored Retirement Plans

Federal laws require that a spouse be the primary beneficiary unless he or she waives that right in writing. When retirement plan assets are left intact within an estate, spousal beneficiaries may inherit the money without paying federal estate or income taxes. After age 70 1/2, the surviving spouse must begin required minimum distributions (RMDs) based on his or her life expectancy. The RMDs are taxed as ordinary income.

Note that recent legislation permitting retirement investors to forego RMDs for 2009 also applies to beneficiaries who otherwise would be required to take RMDs this year. According to current rules, RMDs will once again be required during 2010.

With nonspousal beneficiaries, the plan's rules may determine the beneficiary's options. Some plans require nonspousal beneficiaries to cash out retirement plan bequests between one and five years after the account owner's death. In contrast, other employer plans may offer nonspousal beneficiaries the option of completing a trustee-to-trustee transfer from an employer-sponsored plan to an IRA established for this purpose and subsequently taking annual distributions based on the beneficiary's life expectancy. Regardless of the method that you follow, distributions taken by heirs are taxed as ordinary income.

It is critical that beneficiaries determine the rules of the deceased's retirement plan and consult a financial advisor who can make sure that a bequest from an employer-sponsored retirement plan is managed properly, thereby avoiding unnecessary tax payments.

IRAs

With an IRA, spousal beneficiaries may designate themselves as the account owner and treat an inherited IRA as their own. This means a surviving spouse can transfer the assets to an existing IRA or to an employer-sponsored plan. These transfers typically do not trigger tax payments as long as a spouse follows the rules for trustee-to-trustee transfers. After age 70 1/2, a spousal beneficiary is mandated to take annual RMDs, which are based on the surviving spouse's life expectancy and are taxed as ordinary income.

Nonspousal beneficiaries cannot transfer assets within an inherited IRA to an existing IRA. Instead, they have two options: They may take all distributions within five years of the original account owner's death or take annual distributions determined by the life expectancy of either the beneficiary or the decedent, whichever is longer.

Because determining the tax status of inherited assets can be complicated, you may want to consult an estate-planning attorney or a financial advisor to answer any questions you may have.

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As Medical Expenses Rise, Funding an HSA Could Help

In a recent survey, a majority of preretirees aged 55 and older indicated their top financial worry was "medical expenses not covered by insurance."¹

It's no surprise. As insurance premiums and deductibles rise, the need to save specifically for medical costs could be crucial to your financial well-being. In 2003, the government created a tax-deductible savings vehicle for medical expenses, called a Health Savings Account (HSA), which is quickly finding favor with the self employed and small-business owners.

Anyone can open an HSA, provided they:

- Are currently covered by an HSA-qualified high-deductible health plan (for 2009, that deductible must be at least \$1,150 for single coverage and \$2,300 for family coverage),
- Cannot be claimed as a dependent on someone else's tax return, and
- Are not enrolled in Medicare.

HSA Benefits Today ...

HSAs allow account holders to lower their health insurance premiums by purchasing higher-deductible plans. You can tap into an HSA to pay for any "qualified medical expense," including doctor's visits, prescriptions, dental and vision care, and over-the-counter drugs.

All contributions to an HSA are tax deductible, and there are no income or phase-out restrictions. The maximums are adjusted for inflation annually. For 2009, singles can contribute up to \$3,000 and families can sock away \$5,950.

Additional benefits:

- Employers can make contributions on behalf of their employees. But the annual limits listed above still apply.
- Interest is tax free, and the savings can be invested in a wide variety of investment vehicles.
- Unlike flexible savings accounts (FSAs), which require you to spend all accumulated savings year-to-year, HSA funds never "expire."
- Individuals aged 55 and older can save more -- for 2009 the limit is an additional \$1,000.

... And Tomorrow

- HSAs are portable. If you leave your job, your HSA goes with you.
- Once you reach Medicare eligibility age (currently age 65), you can take withdrawals from your account for *any* reason, not just for medical expenses. But be warned: If not used for medical care, deductions are no longer federally (and in some cases, state) tax free.
- Upon your death, your HSA can be passed along to your surviving spouse. Unmarried individuals can pass the account to their beneficiary or estate; however, applicable taxes will apply.

Your tax or financial professional can help you determine if an HSA is right for you.

¹Source: *Retirement at the Tipping Point: The Year That Changed Everything*, Age Wave/Harris Interactive, May 2009.

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