

Lessons Learned: Active 'green' retirement requires planning

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Let's talk about living a "green" retirement, a concept focused primarily on recycling and stretching assets. This may be especially relevant if you're riding the crest of the first wave of the baby-boom generation, and are retiring this year.

If you tenaciously squirreled away a small amount of cash each payday, over the past 40 years, in employer-sponsored retirement plans or in Individual Retirement Accounts, it's likely you have a substantial nest egg.

Despite periodic bear markets and short-term volatility, your stash grew because earnings can compound when sheltered.

The big challenge ahead is to find ways to manage and preserve the nest egg — so it continues to grow at a modest pace and lasts you 20 to 30 years in retirement. Here are some green-retirement strategies:

n Rolling a 401(k) account into an IRA expands options, helps heirs: The day after you retire, do your children a huge favor by rolling all assets in pension plans or employer-sponsored retirement accounts directly into a new IRA.

Here's why: When 401(k) assets are left with a former employer, beneficiaries may be required to liquidate the account soon after the owner dies, triggering a hefty chunk of income taxes. You're also more likely to have a larger menu of investment options available in a new IRA account.

Finally, financial institutions that want to attract your rollover might offer neat incentives, such as free on-going advice on retirement planning.

n Move slowly in making decisions on inherited retirement accounts:

IRAs are a complex asset to inherit because tax rules can take a big bite from your portfolio if you make a transfer mistake. For example, if you inherit an IRA from parents, grandparents or anyone other than a spouse, do not withdraw the money and deposit it into a new IRA, or roll it over into your own retirement account.

Instead, keep the inherited IRA and stretch out distributions, and the taxes, over your lifetime.

A better strategy: Keep the inherited IRA intact, retitling it as an "inherited IRA."

This step tells the Internal Revenue Service the original owner of the IRA is

deceased, and that you — the beneficiary — plan to stretch out the distributions, and the taxes.

The main reason for not emptying an inherited IRA account is that you want to maintain tax deferral as long as possible. After taking a required distribution, consider recycling this cash into tax-efficient investments such as municipal bonds or index funds.

n Decline an inheritance? Perhaps. [Disclaiming all or part of an IRA, in favor of a family member with a longer life expectancy, means that the tax benefits can last even longer. The rules of this maneuver are complex, so do consult a tax adviser.

n Recycle income into a tax-free Roth IRA . I've argued in earlier columns that one reason you or your spouse should consider working part-time in retirement is to have earned income that qualifies you for annual Roth IRA contributions.

Another green-retirement tax trick to consider: If you are being forced to take required minimum distributions from IRA accounts because you've reached age 70 ½, some of that money might be available for recycling into a Roth IRA.

In other words, if income from this required distribution is more than you need, recycle a portion into a Roth, where earnings are tax-free — now and later.

For 2006, the cap on Roth contributions is \$4,000, plus an age 50-and-up contribution limit of \$1,000.

Over time, assets recycled into your Roth accounts could generate an enviable stream of tax-free income.

Don't overlook the fact that eventually the beneficiaries of your Roth IRAs will also receive tax-free distributions. These can be spread over their life expectancies — possibly another 30 or more years of un-taxed growth.

I'm fascinated by these great ways to grow and stretch IRA accounts until they become a legacy.

If you have a Lessons Learned topic to suggest, you can call Gene Kelly at 421-2861, write to him at 2611 Bretigne Circle, Lincoln 68512, or e-mail him at ck62819@alltel.net.

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