AlaskaUSA
# TrustNotes

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# Managing your IRA

**Most of us think of IRAs and retirement plans as financial tools for asset accumulation. We often pay little attention to how funds can be withdrawn from the accounts until retirement. Here are some general rules on how funds coming out of IRA accounts are treated for income tax purposes. This discussion applies to regular IRAs since Roth IRAs are treated differently.**

## Distributions before age 59½

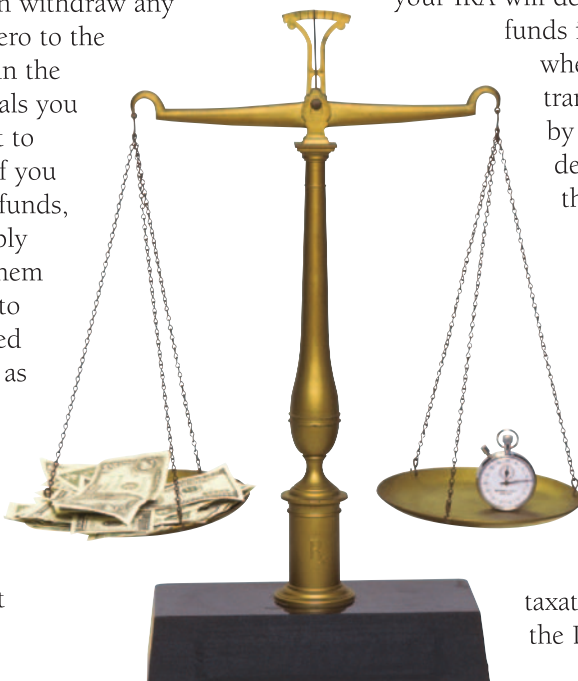
The general rule is that funds withdrawn from an IRA qualified plan before age 59½ are subject to an additional tax of 10% on top of being reported as taxable income in the year taken. In addition, there is a special rule that can be applied for distributions taken using a life expectancy formula that will also avoid the penalty. There are a few exceptions for death and disability.

## Age 59½ to age 70½

Once you reach age 59½, you can then start withdrawing funds without penalty. You can withdraw any amount from zero to the entire amount in the IRA. Withdrawals you take are subject to income taxes. If you don't need the funds, you will probably want to leave them in the account to earn tax-deferred returns as long as possible.

## After age 70½

After you reach age 70½, you must start taking distributions from your plan. This concept was established to eliminate the possibility of someone accumulating huge amounts of money that continue to grow tax-deferred. The IRS has also established rules to force you to take a minimum amount each year. This is called the Required Minimum Distribution, as discussed below. You can also take more than the minimum. Withdrawals you take are subject to income taxes.



## Distributions at death

The beneficiary designated as part of your IRA will determine whom the funds in your IRA pass to when you die. This transfer is not governed by your will. If you designate your estate as the beneficiary, funds would then be available to be distributed according to your will. This is also the case if you have no designated beneficiary. That distribution triggers the income taxation of the funds in the IRA.

If you designate your spouse or another person as the beneficiary, the IRA passes to that person "intact" without being subject to income taxes. It then gets treated like the beneficiary's IRA subject to the normal distribution requirements.

## Required Minimum Distributions

At age 70½, the IRS forces you to start taking withdrawals. These withdrawals are often referred to as Required Minimum Distributions (RMDs). The amount that must be withdrawn is based on life expectancy tables provided by the IRS. The rules for determining how much you must take were simplified in early 2001. A uniform new life expectancy table was adopted and generally provides for smaller RMDs.

If you are currently required to take RMDs, you should consult your tax advisor to determine how the new rules apply and whether you should make changes in your distribution levels.

## Summary

Individual Retirement Accounts can be the foundation of a successful plan for a financially secure retirement. Tax deferral on the earnings and the new beneficial rules for required minimum distributions make these accounts even more attractive. As with any investment tool, you should consult with your tax advisor to understand your options. Then check with Alaska USA Trust Company for proven investment options for a new or roll-over IRA.

# Consider a fixed annuity

Having enough money for the retirement lifestyle you want is usually best accomplished by using all the financial tools at your disposal. Your retirement plan and IRA can provide the foundation for that nest egg. Another tool you may want to consider is a fixed annuity.

### What is a fixed annuity?

A fixed annuity is a contract issued by an insurance company under which you invest a sum of money and the company pays you fixed amounts over time. The earnings within the annuity accumulate on a tax-deferred basis until you begin to receive withdrawals. With a fixed annuity, you are usually guaranteed a rate of return for some period with the rate being adjusted after an initial period.

Most people use fixed annuities to accumulate funds on a tax-deferred basis as part of their retirement planning strategy. Depending on the policy, withdrawals of interest, or in some cases up to 15% of the principal, can be made without penalty. Withdrawals are subject to regular income tax and the IRS imposes a 10% penalty tax if funds are withdrawn before age 59½.

There are also annuities that offer payouts beginning immediately.

### Review the details

1. **Initial rate guarantee.**
   Compare the initial rate guarantee to other investment options such as government bonds and tax-exempt bonds.
2. **Subsequent rate re-setting.**
   After the initial rate period, the insurance company will reset the rate. Check to determine what their rate setting policy is.
3. **Surrender charges.**
   Fixed annuities should be thought of as long-term commitments. The contract will spell out any surrender charges for early withdrawals.
4. **Insurance company.**
   Be sure the insurance company is financially sound and that they have a good customer service history.

### Summary

Fixed annuities can be a valuable part of your total financial strategy, but they are not for everyone. They offer the benefit of tax deferral and come with the guarantee of the insurance company. Be sure to investigate all of the details before signing up. A trust officer can provide more information about annuities offered through Alaska USA Trust Company.

**Please contact us at 562-6544 in Anchorage, (888) 628-4567 toll-free outside of Anchorage, from 9 a.m. to 5:30 p.m. Monday through Friday.**

# Saving for college

There are a number of ways parents (and grandparents) can save for a college education. With the rising costs of college educations, it makes sense to explore all the options.

A recent study found that the average annual cost of attending a public university was about $8,500 and the cost of a private college was about $22,500. Those figures only include tuition, fees, room and board. College costs have also been increasing at a rate in excess of the general inflation rate. Other costs to consider are travel, incidental expenses and entertainment. For today's kindergarten student, the total cost of a four-year education at a public university could be almost $90,000 and at a private college, the cost would be more than $190,000.

### Consider a custodial account for college savings

Custodial accounts, usually referred to as Uniform Gifts to Minors (UGMA) or Uniform Transfers to Minors (UTMA) accounts, allow a parent to create an account on behalf of the minor child. Assets are irrevocably transferred into the account and the custodian manages the account until the child reaches legal age. At that point, the child is free to use the funds as he or she wishes.

Transfers in excess of $11,000 ($22,000 if two parents contribute) require a gift tax return to be filed. Income from the assets within the account is taxed to the child. Generally, the first $750 of investment income is free of tax and the next $750 is taxed at the child's rate (15% for dividends, interest and short-term capital gains and 10% for long-term capital gains). If the child is under 14, additional income is taxed at the parent's tax rate. This is referred to as the "Kiddie" tax.

College is expensive and the costs are rising. It's smart to start investigating college funding options early to find what best fits your situation.

*Please note: Investments are not covered by deposit insurance, are not a deposit or other obligation of, or guaranteed by, Alaska USA Trust Company or Alaska USA Federal Credit Union, and are subject to investment risks, including loss of the principal amount invested.*