

What Your Bank Should Learn From Lexus & Mercedes Benz

By Neal Frankle, CFP®

Every three months, like clockwork, you probably get a friendly postcard from your Lexus or Mercedes dealer reminding you that it's time to change the oil in your automobile. Good idea. When you go, the professionals give your car a careful inspection, making sure everything's running at tip-top shape. It keeps your automobile humming up and down the highway.

Why don't the bank or other IRA custodians ever send you a card reminding you it's time to check your beneficiaries and required minimum distributions? Why doesn't your financial advisor ever do this? Isn't your financial engine just important as the engine in your Mercedes CLS 55?

Why even bring this up? Well, think about it. If you're like most Americans, your greatest financial assets are the dollars sitting in your retirement accounts. It's a lot of money. What determines what's going to happen to that money when you depart to that big service station in the sky?

Right about now, you may be scoffing at me. You've got nothing to worry about, right? You've got a living trust. Surely

the living trust you spent thousands of dollars on covers the retirement assets ... doesn't it?

WRONG! VERY, VERY WRONG!

Your living trust is designed, in most cases, to control your non-retirement assets and only your non-retirement assets. What controls the distribution of your retirement assets? It's the beneficiary forms you filled out at the bank or brokerage firm. You remember: Those are the forms you thought about for three seconds before you signed them 15 years ago.

So what's wrong with that? Well, for starters, the banks often lose those forms. Yes, that's right, they lose them. Banks and brokerage firms are bought and sold like used cars. When you buy a used car, you might hold on to the old receipts, but many banks don't. Want to test this for yourself? Go to the bank and ask to see a copy of your beneficiary forms. Five dollars will get you \$10, they'll be unable to unearth them.

And even if the bank has the form, you've still got a few bumps in the road. It's estimated that 40 percent of Americans have never listed a beneficiary for their retirement accounts.

Many procrastinate. They tell themselves, "I'll get around to it," and they never do. Others outlive their beneficiaries. Think about it. If you named your beneficiary 10 or 15 years ago, there's a decent chance you've outlived that person.

Suppose your bank can't find the form or you die without having a living beneficiary. What's the big deal? Oh, nothing ... if you think throwing away hundreds of thousands of dollars is "nothing."

What do I mean? When you die without a beneficiary your retirement assets are subject to immediate taxation. Why should you care?

Consider this. If you owed the government \$100,000, when would you rather pay them, January 1 or December 31? If you've got any gas in your tank, you answered December 31. Why? Because you get to use the government's money to earn interest for yourself. This is the realization of the American dream. It's called leverage. Well, with retirement accounts, you grow money tax-deferred. That means you get to use the government's money for decades. And when you die, whatever money is left over in your retirement accounts can still grow tax-deferred for your beneficiaries for decades and decades. If you have a beneficiary, that is.

To put some dollars behind this, let's assume you die with \$1,000,000 in your retirement account, and you're in the 35 percent marginal tax bracket. If you fail to name a beneficiary, your estate pays tax on this IRA immediately, so the ultimate beneficiaries get about \$650,000 after tax. If, on the other hand, your beneficiary (assume it's your spouse) continues to defer the tax, the spouse will have more than \$3,200,000 in 20 short years, assuming she can invest the money at 6 percent. That's the power of tax deferral.

For a quick recap, if you allow the government to tax your retirement accounts immediately upon your death, your beneficiaries will have about 1/5 the amount they could have received had you done some thinking and allowed them to continue the tax deferral process.

So my strong recommendation to you at this point is to contact each of your retirement account custodians and make sure they provide you with a copy of your beneficiary designation forms. Have them take a look under the hood and be sure everything's running as it should.

In the coming months, I'll be writing more about the importance of retirement account planning.

Neal Frankle is the author of Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity. He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, to do the same thing for their clients. To contact him with questions, send an e-mail to Neal@WealthResourcesGroup.com.

*Professional
Mobile Detailing*

**Wash & Wax
World**
ON WHEELS

848-2664

- Complete Car Reconditioning
- Hand Washing
- Hand Waxing
- Shampoo Interior

Weekly or Monthly Programs

Family Owned & Operating
For 20 Years & Growing...

(561) 848-2664
Call for Appointment Today

Licensed & Insured