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Taking Maximum Advantage of Retirement Plan Assets

Retirement plan assets can be the worst assets in your client's estate, or they can be the best. Without proper planning, these assets might be subject both to estate tax and to income tax, so that heirs could receive as little as 25 percent of the assets. With proper planning, these same assets can multiply many times over and the income tax due will be paid with dollars generated by tax free compounding. The estate planner's challenge is to maximize tax free growth while minimizing the tax bite.

Contributions to a retirement account (and the subsequent earnings on these contributions) are not subject to income tax until withdrawn. This allows retirement plan assets ("plan" will include all qualified retirement plans under IRC 401(a), such as 401(k) plans and defined benefit plans, 403(b) plans and IRAs, but not Roth IRAs) to grow more quickly than assets subject to current income tax. Because the power of tax deferred growth is so significant, the primary objective is to keep the plan assets in the tax free environment for as long as legally possible. Of course, if additional funds are required by the client or the heirs, then the assets an be removed sooner.

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