# Planning for Retirement Accounts that Outgrow Retirement

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**Collaborative. Accountable. Authentic.**
**Legal Solutions for Business Objectives.**

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Better as One with Hopkins Carley

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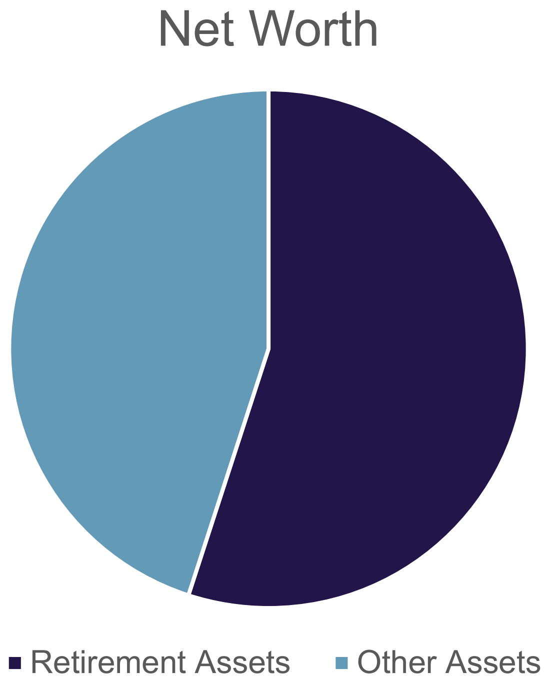
# Retirement Accounts: Wealth Accumulation and Legacy Creation


- Retirement accounts are a powerful wealth accumulation tool.
- As a result, they can create a significant impact as part of a comprehensive estate plan.
- We will consider:
  - Enhancing family wealth through retirement accounts
  - Preserving value with attention to special tax status and legal compliance
  - Estate and income tax implications of retirement accounts
  - Coordination of your retirement accounts with your overall estate planning strategy

# Accumulation of Retirement Assets

- Tax advantaged accounts may represent up to 55% of net worth for high-net-worth individuals
- Important pool of investible assets that can outgrow retirement income needs
- Preserving tax-advantaged status during growth

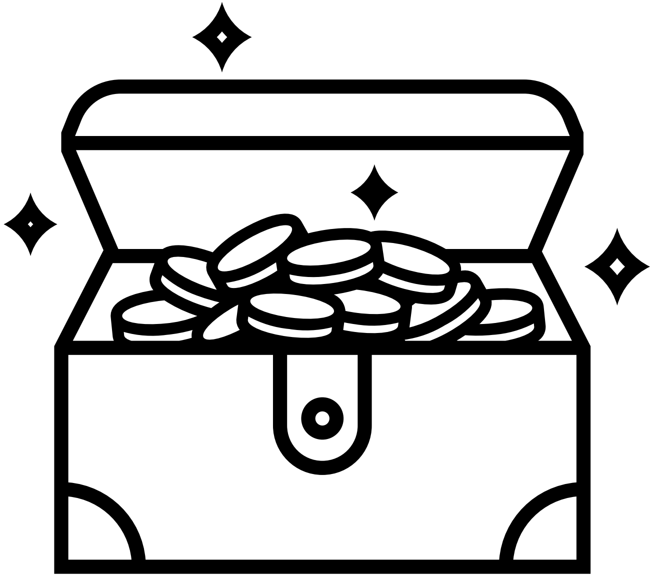


# Growth Phase

- ERISA plans, IRA, HSA
- Investment options
  - Mutual funds
  - Alternative investments
- Self-directed
- Limitations
  - Prohibited transactions
  - Prohibited investments

**Client Alert: New Executive Order Opens the Door for Alternative Assets as 401(k) Plan Options**

# Loss of tax-advantages



- Best intentions can result in significant issues
- Prohibited transaction results in immediate taxation of entire IRA or tax penalties
- Purchase, sales, loans, use, and transfer to or from a disqualified person
  - IRA owner, family, businesses / trusts owned by same

Examples of desired investments:

- Purchasing beach condo
- Investing in son's start-up
- Gold bars
- Private equity

# Designating Beneficiaries: Coordinating Your Retirement Accounts with Your Estate Planning Strategy

- Retirement accounts are distributed pursuant to *designated beneficiaries*.
- Retirement accounts are includable assets in your estate for federal estate tax purposes at your death.
  - As of the passage of the One Big Beautiful Bill, starting in 2026 the federal estate tax exemption and generation skipping tax exemption will be **$15,000,000**, indexed for inflation
- If you reside in a state with estate tax or inheritance tax (*e.g.*, MN, WA, OR, etc.), these accounts may also be subject to such taxes (CA does *not* have state estate/inheritance tax)
- You should consider your beneficiary designations in the context of your over all estate plan, especially if you have specific goals about how/when your beneficiaries have access to their distributions.

# Designating Beneficiaries: Income Tax Considerations (SECURE 1.0 and 2.0)

- 10-Year Depletion Rule
  - SECURE Act 1.0 (2019) eliminated the old “stretch IRA” for most non-spouse heirs, replacing it with a **10-year rule**: the inherited IRA must be completely withdrawn by **December 31 of the 10th year** after the original owner’s death (Secure 2.0 did *not* change this, but added clarification and RMD requirements)

- Annual RMD Requirement (Effective 2025)
  - Under original rules, beneficiaries could wait and withdraw at any time within the 10 years.
  - As of January 1, 2025, if the decedent had begun RMDs before death:
    - You must take **annual required minimum distributions (RMDs)** in **years 1–9**, **plus** fully deplete the account by year 10 end
    - If the decedent had not yet begun RMDs, you have flexibility—no annual RMDs required until the final year, when the full balance must be withdrawn

- “Eligible Designated Beneficiaries” (Original stretch rules still apply)
  - Spouses continue to get the lifetime stretch (they can take annual RMDs over their lifetime); minor children can get the lifetime stretch until age 21, and are subject to the 10-year rule

# Designating Beneficiaries: Trusts and Charitable Planning

- Trusts as Designated Beneficiaries
  - A trust can be a designated beneficiary for a retirement account if it is critical for overall estate planning objectives; however, careful planning is necessary in order to qualify for the 10-year rule or lifetime stretch rule
- Charitable Planning
  - Qualified Charitable Distributions (QCDs)
    - You must have reached age 70 ½
    - Cap of $100,000 per year
    - Only from IRA (no 401(k) or active employer SEP/SIMPLEs)
    - Distribution must be made directly to eligible charitable organization (public charities; DAFs, private foundations, and most supporting organizations **do not** qualify)
    - If you are subject to RMDs, QCDs can offset all or part of your RMD for the year
  - Designated Beneficiaries
    - You **can** name a public charity, donor advised fund, private foundation as designated beneficiaries
    - You can do some advanced planning by naming a Charitable Remainder Trust (CRT) as a designated beneficiary – it can be a tax efficient way to give a non-charitable beneficiary an income stream in a more income tax advantaged way; a portion will be deducted from your gross estate for estate tax purposes; and you can fulfill charitable goals

# Case Study: John Smith (Present)

- John Smith is a 52-year-old who works for an AI computing company “Mvidia” and he is married to Jane.
- John has a $5M traditional IRA which was distributed from his prior workplace 401(k) at another tech company “Zeta”.
- Much of John’s net worth outside of his IRA is tied up in company stock and substantial real estate holdings in Tahoe.
- John’s Family: John & Jane have 1 child (Jr.) who is a young adult with a sizable income. John’s father (Sr.) is still active and an accredited investor.
- John’s whole family has the start up bug and want to invest in emerging tech companies.
- Tech 101, founded by Jr.’s former college roommate, is seeking private investment.


- Tech 101 is currently unrelated to John meaning no family members own or are being paid a salary by Tech 101.
- Jane, Sr., and Jr. will invest non-retirement assets.
- John will use his IRA.

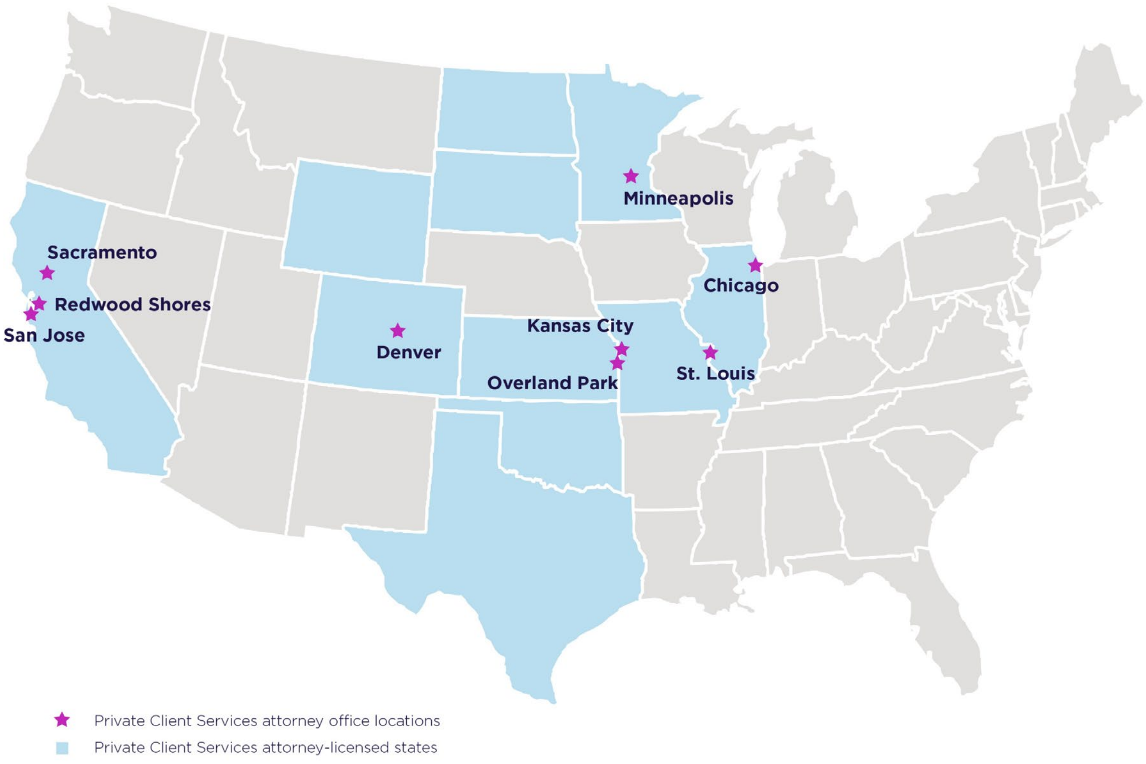
# Case Study: 28 Years Later

- John is now in his retirement years. Jane and Sr. both predeceased him.
- The investment in Tech 101 was a success and with other good investments, the IRA is now worth $28M.
- John's net worth is north of $130M.
- Jr. is doing quite well in life—he's married with 3 kids and is a successful VC.  He also received a sizable inheritance from Sr. and from his other grandparents.
- John has used all his remaining federal estate tax exemption and his generation skipping tax exemption on other planning for Jr. and his grandchildren.
- John is charitably inclined. He has a donor advised fund (DAF), but has not directed substantial funds to it.

# Conclusion

- Tax advantaged assets: potential for considerable growth and significant wealth transfer potential
- Be mindful of investment limitations
- Beneficiary designations matter
- Opportunities for coordination among retirement, estate planning, and investment professionals

# Lathrop GPM's Private Client Services Team



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