



Transferring What You Want, the Way You Want, to Whom You Want

By Scott Lebin, RFC

Transferring assets is a topic that can apply to many different aspects of planning. The correct time to transfer assets and the method by which assets are distributed to both the owner and their heirs are issues of great importance when efficient processes are the goal.

Doctors should understand and evaluate the transferring of assets and the movement of assets from one entity to another before any action takes place. You should discuss with your tax and legal advisors any pitfalls in the process. The first goal of an advisor is to protect your financial independence. Then he must make sure that if there is excess capital available, you transfer to your heirs the amount you want when you want. A final priority is to determine how to transfer your social capital. We all transfer social capital regularly; it is called taxation.

I will presume that we have prioritized your wishes correctly and I will explore three areas of asset transfer that doctors have to think about at some point in their accumulation or distribution phase of life.

The three areas are the transfer of assets for college education expense to children or grandchildren, the movement of assets from pre-retirement plans to post-retirement plans and finally the transfer of assets into charitable or irrevocable trusts.

In this short examination, the goal is to provide you with enough information so that you can begin to ask questions and seek answers from your advisors. It is impossible to cover all of the tax and legal implications of the multitude of strategies available. There are many strategic planning solutions that you or your advisor can use.

Planning for college is an important part of a long-term planning process. Once you identify a future need, then you can make a consistent contribution over time to meet the goal. As a result, the financial burden of education becomes easier to alleviate. The early planning reduces stress as the need materializes.

The use of planning for college can involve 529 plans, gifting plans and trust planning.

The advantages of these solutions sometimes create a tax situation where money can be moved from a higher to a lower tax bracket. These assets can then work more tax efficiently for the child or grandchild. In addition, some of the planning techniques, using a 529 plan for instance, may provide tax-free growth and tax-free distribution if the accumulated assets are for college expense. There is also the opportunity for grandparents to move money outside their estate to help fund grandchildren's future education costs. This strategy can thus have a positive effect for grandparents' overall estate tax. These are the issues that an advisor must evaluate to determine if any one strategy is right for a given client's situation.

Retirement for a new retiree creates many tactical questions about transferring assets. We hear very basic questions: "How do I move money from my retirement plan and how do I get money from my plans to live on in retirement?" The wrong distribution of money from one plan to another can have drastic tax implications. Many individuals roll money from their plan into their own personal IRAs. They do this so that they can have more control over the investment of the assets. I have found that many retirees also want to simplify their financial lives. Consolidating IRAs is one technique that may provide a solution to the individual who has many different IRA and pension accounts.

The technical aspect of making sure that a trustee-to-trustee transfer takes place so that tax deferral continues during retirement is very important. This is one area of planning in which the "do-it-yourself" investor should get outside assistance. If a doctor makes a mistake, it is often irreversible. The excuse that, "I thought that's how it should be done," might not keep you from experiencing significant erosion of assets due to early taxation. In addition, not taking correct minimum distribution at age 70-1/2 might cause more than a 50% loss of the undistributed amount due to penalties in addition to the regular taxes due.

The third area of transfer of assets deals with irrevocable trusts and charitable trusts.

The advantage of moving life insurance outside your estate and into an irrevocable life insurance trust is that upon your death, the death benefit will not be included in your heirs' overall estate tax. There is a three-year look-back rule for old policies and you need to understand that in case of death within three years, the death benefit will be included in the overall estate. You must also consider the many aspects of transferring assets and the wording of a trust. A lawyer can address asset protection for heirs and spendthrift provisions that may meet the goals of a given family.

A charitable remainder trust is one of many types of trusts that have specific benefits. If, for example, an appreciated real estate investment has capital gains treatment that is significant, the property can be donated to a trust, a tax deduction might be allowed and then the charities can sell the property for its total value. The value can be used to fund an income stream to the donor or the donor and spouse for their lifetimes.

The transferring of assets is a necessary and practical part of planning. As with many decisions a doctor must make in life, the simple actions can sometimes be more complex than they seem on the surface, and the complex can sometimes be simple when there is clarity about implementation. This article, like the others we have published, emphasizes the necessity of your making sure that you are asking the right questions so that the solutions to transferring assets are appropriate for you and your family.

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