LORD ABBETT®

THE GREAT WEALTH TRANSFER

Multigenerational Legacy Planning

Brian Dobbis
Director, Retirement Resources, QPA, QKA, QPFC, TGPC

Lord, Abbett & Co. LLC
90 Hudson Street, Jersey City, NJ 07302-3973

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Combining and/or consolidating assets in an IRA rollover may involve the application of administrative fees and other charges to the investor.

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Traditional IRA contributions plus earnings, interest, dividends, and capital gains may compound tax-deferred until you withdraw them as retirement income. Amounts withdrawn from traditional IRA plans are generally included as taxable income in the year received and may be subject to 10% federal tax penalties if withdrawn prior to age 59½, unless an exception applies.

Required minimum distributions (RMDs) must be taken from traditional IRAs by April 1 following the year that a person turns 70½. An RMD must be taken from the IRA in each subsequent year. Failure to take the required minimum distribution will result in a 50% penalty on the amount that was not distributed. Mandatory distributions that represent deductible contributions and all earnings are taxed as ordinary income. Mandatory distributions based on nondeductible contributions are tax-free.

A Roth IRA is a tax-deferred and potentially tax-free savings plan available to all working individuals and their spouses who meet the IRS income requirements. Distributions, including accumulated earnings, may be made tax-free if the account has been held at least five years and the individual is at least age 59½, or if any of the IRS exceptions apply. Contributions to a Roth IRA are not tax deductible, but withdrawals during retirement are generally tax-free.

A Stretch IRA is for investors who will not need their IRA money during their own retirement. While the law does not restrict which taxpayers can select the stretch IRA option, the stretch strategy is appropriate only for those individuals who simply need and plan to receive the required minimum withdrawals, taken at the latest time the law allows, without penalty, age 70½ .

Withdrawals by the account holder or beneficiaries in excess of the required minimum distribution (RMD) will exhaust the account at a faster pace, reducing or eliminating the effectiveness of the stretch strategy. Distributions greater than the RMD could subject the payment to higher federal and possibly state income taxes. There can be no guarantee that a Stretch IRA strategy will be advantageous to your specific situation, and many of its benefits are based on current tax laws, which are subject to change. If these laws change in the future, an investor's ability to maintain estimated distributions may be affected. Lengthy distribution periods, much like those involved in a Stretch IRA, expose an investor to significant market risk.

AT A GLANCE

- Independent, privately held firm
- 67 partners
- Assets under management: $157.7 billion*
- 161 investment professionals with an average of 18 years of industry experience

INVESTMENT-LED. INVESTOR-FOCUSED.

OUR FIRM

A singular focus on the management of money since 1929

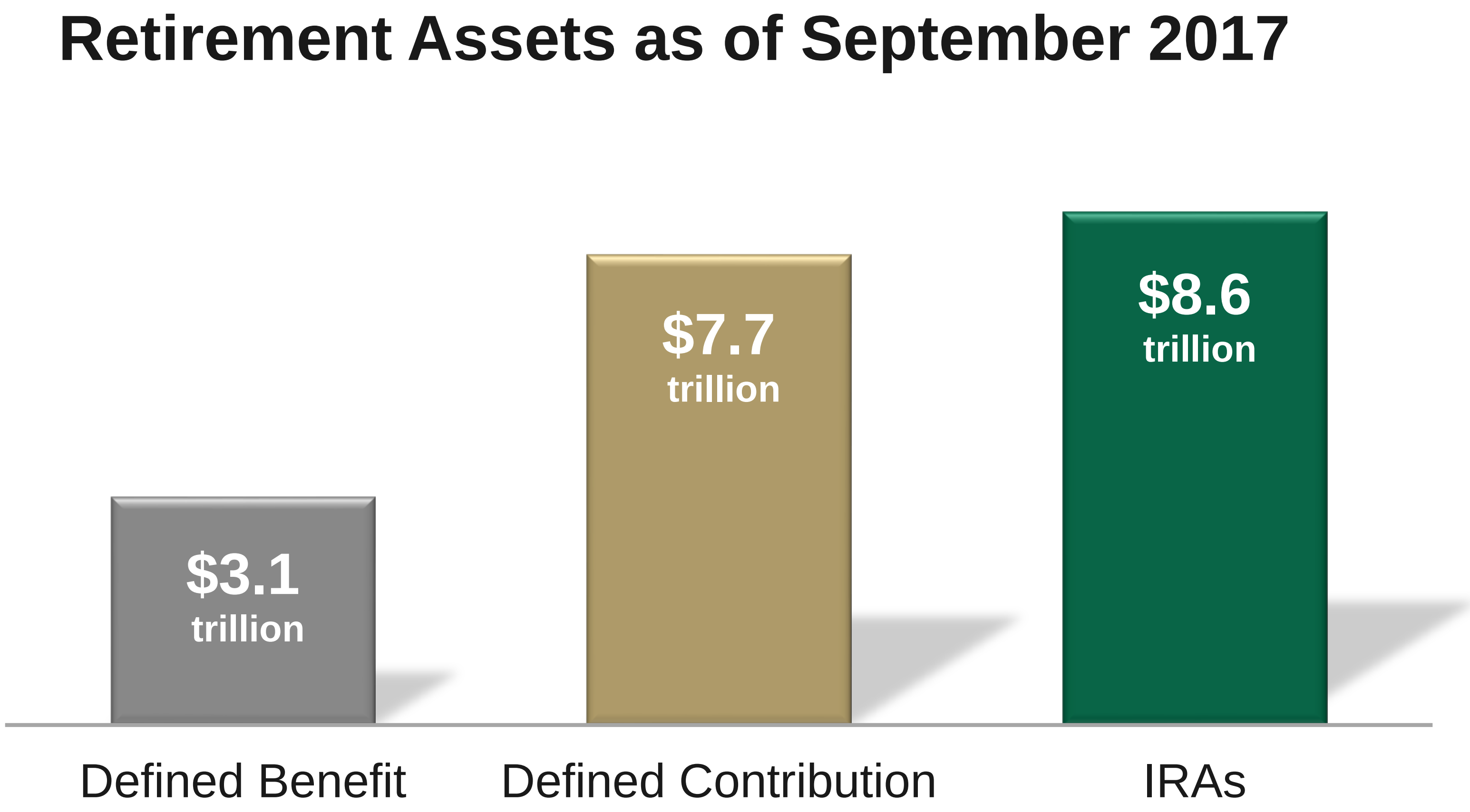
OUR MISSION

Delivering superior long-term investment performance and a client experience that exceeds expectations

OUR DIFFERENTIATORS

- Independent Perspective
- Commitment to Active Management
- Intelligent Product Design

Data as of 12/31/2017.
*Includes approximately $1.6 billion for which Lord Abbett provides investment models to managed account sponsors.



Investment Company Institute, September 2017. Most recent data available.

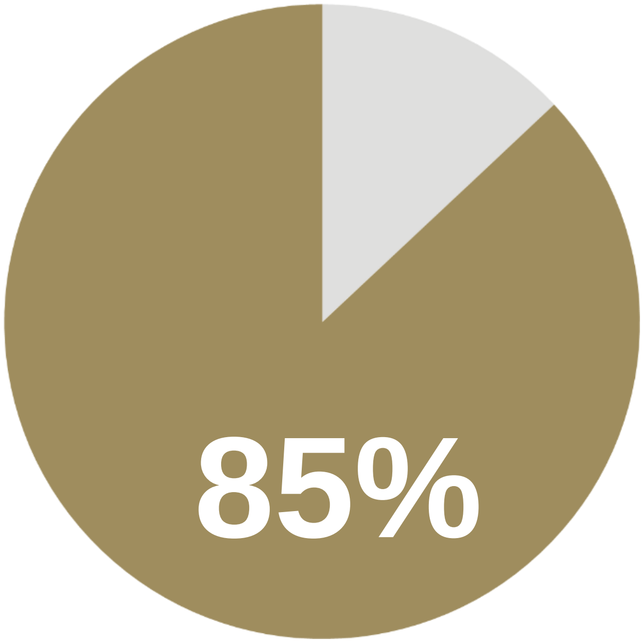
Retirement accounts pass to the next generation based on the beneficiary form

NOT the Will…

Ask about all qualified accounts

- 401(k), Profit-sharing
- Pension plans (defined benefit, money purchase, etc.)
- IRAs (including SEP and SIMPLE IRA)
- 403(b)
- 457
- Health Savings Accounts (HSAs)

FAILURE TO COMMUNICATE



Percentage of family wealth that evaporates due to a breakdown in communication and lack of a plan

Source: Bloomberg Markets; "Courting the Rich", September 2013

Who Can Be a Named Beneficiary?

- Individual(s) – spouse, non-spouse, friends
- Charity
- Estate
- Trust
- Combination of the above

Naming Several Beneficiaries

If naming several beneficiaries…

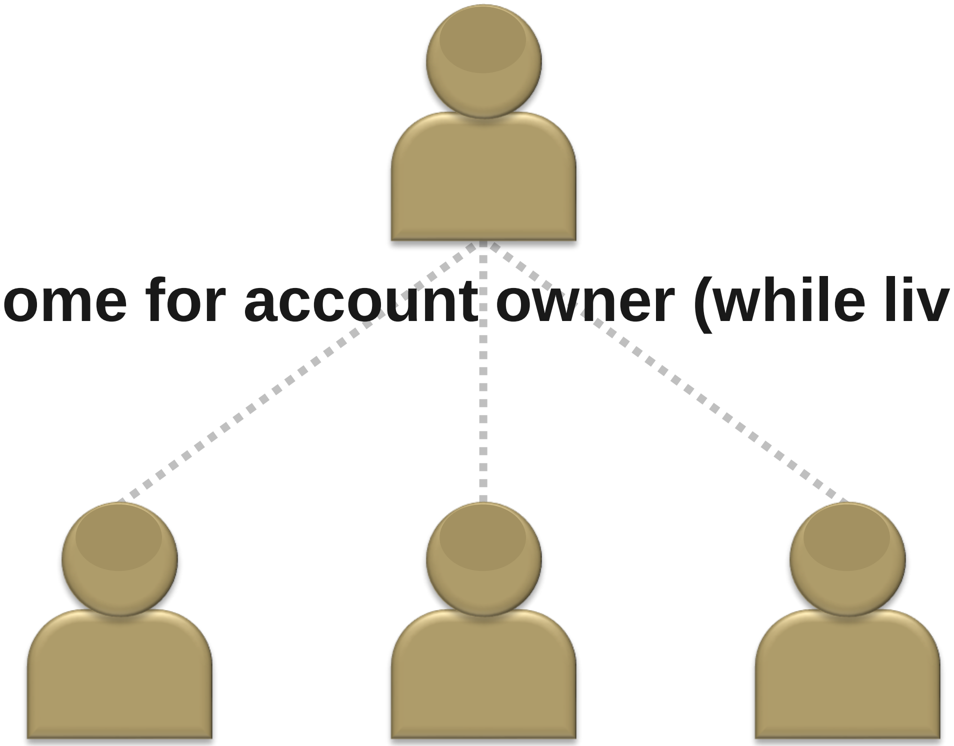
- What happens to each share if a beneficiary predeceases the owner and…
  - Beneficiaries **have not been** updated upon the account owner passing?

PER CAPITA

- Inheritance is divided equally among surviving descendants
  - “Share and share alike”
- Often default for most beneficiary forms

PER STIRPES

- Proceeds “by branch” – refers to every person down a family tree
- Beneficiary’s share (of the inheritance) goes to his/her heirs
- Generally, done by writing on most beneficiary forms the name of the person…
  - “Jane Doe, Per Stirpes”
- Per Stirpes designation permitted?



Income for account owner (while living)

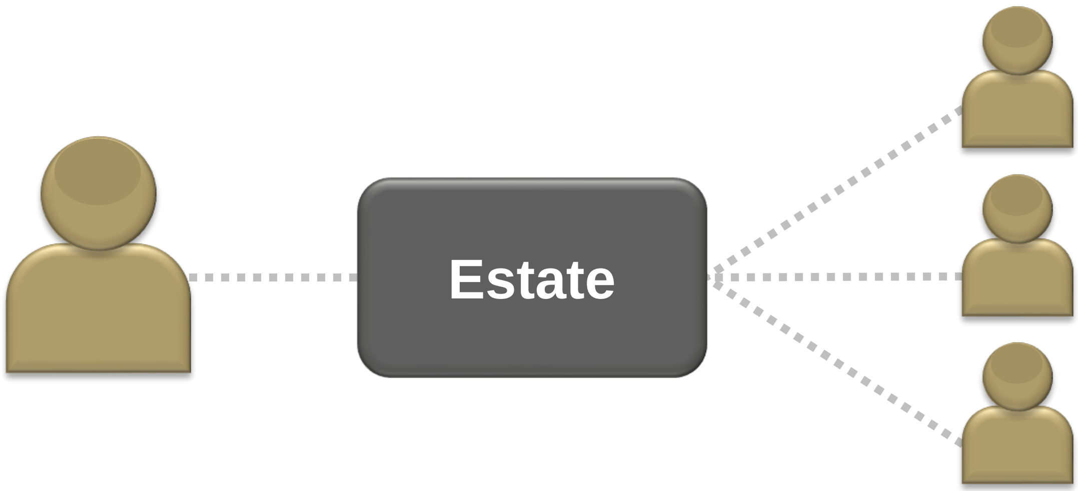
and/or

Income for beneficiaries

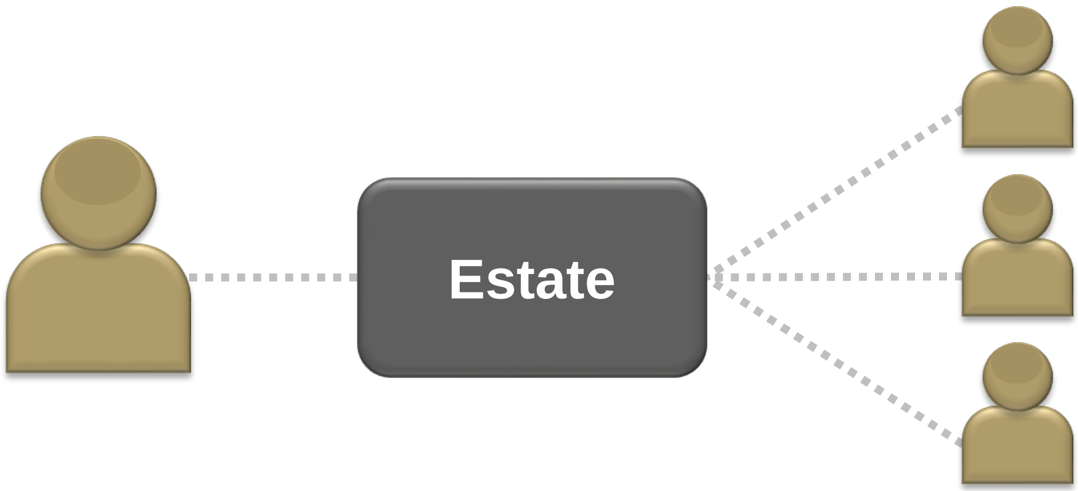
(Person and/or non-person)

COMMON BENEFICIARY PLANNING MISTAKES

ESTATE (NAMED) AS BENEFICIARY



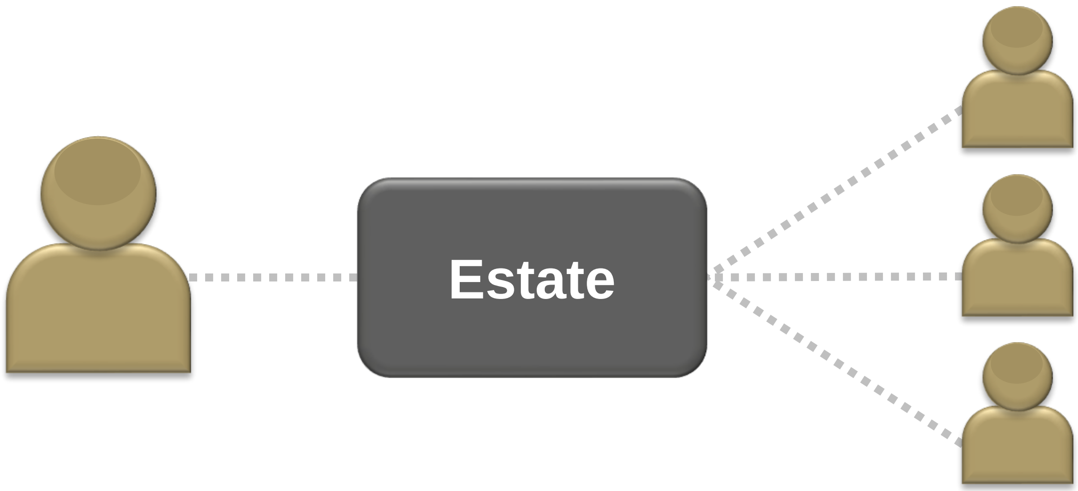
Heirs eventually receive an IRA's proceeds, but *not* necessarily in the most tax-efficient manner.



BEFORE

Death occurs **before** the required beginning date (RBD)—April 1 following age 70½.

Account must be distributed on or before December 31 of the year that includes the fifth anniversary of death



AFTER

Death occurs
<u>after</u> the RBD*.

Account is distributed based on the account owner’s remaining life expectancy.

5-year payout is **not** available

*Required beginning date (RBD).

Charlie

EXAMPLE

- Charlie’s mother,75, passes away when he is 50.
- He is the heir, but his mom named her estate as IRA beneficiary.

ESTATE (NAMED) AS BENEFICIARY (CONT.)

Charlie

	Estate Named as Beneficiary	Charlie Named as Beneficiary
Charlie's Current Age	50	50
Maximum Payout Years	13*	34**
Percentage Payout in Year 1+	8.10%	3%

*In this scenario, Charlie would take distributions based on his mother's remaining life expectancy.
**In this scenario, Charlie would take distributions based on his remaining life expectancy.
+Based on a factor provided in an IRS table for determining required minimum distributions.

Account Owner **Primary Beneficiary**

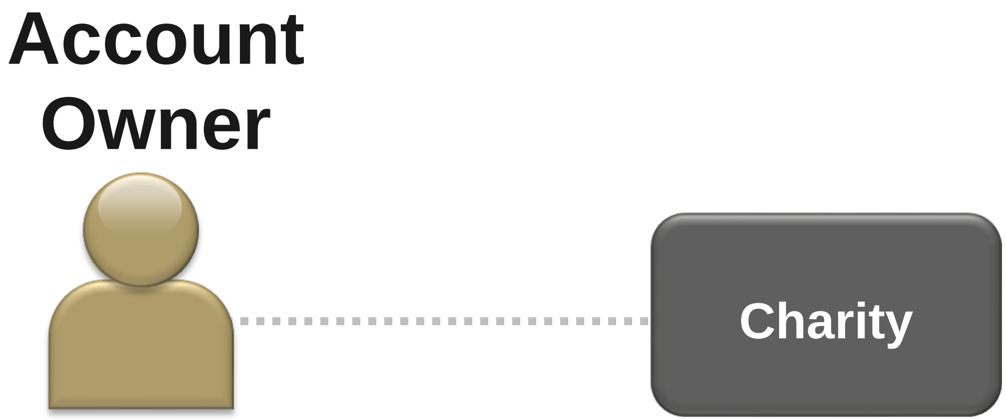
If the primary beneficiary pre-deceases the account owner…

then IRA custodial account's terms govern.

Account Owner **Primary Beneficiary**

If the account owner and primary beneficiary (spouse) die simultaneously, and it's determined the beneficiary died first…

IRA custodial agreement terms govern, as there was no beneficiary.



Naming a non-person on the same account as a person triggers rules that…

may eliminate potential to “stretch” payments over a human beneficiary's life expectancy.

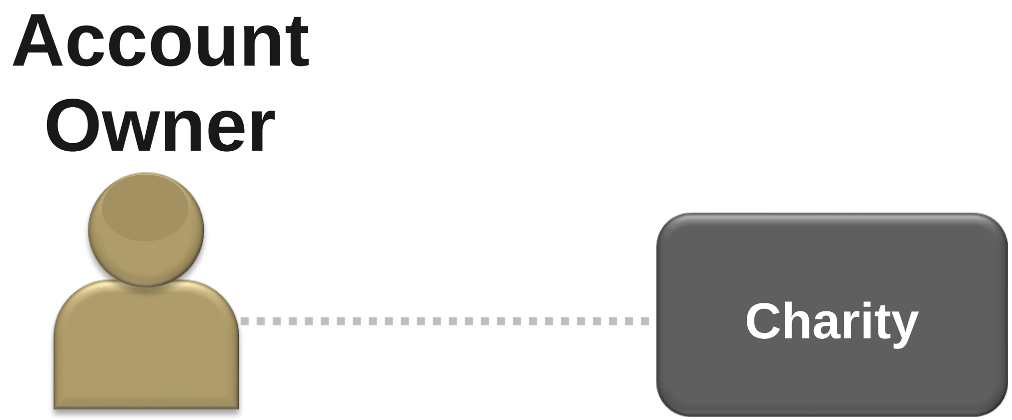
NAMING A NONPERSON (CHARITY) AS CO-BENEFICIARY (CONT.)

Account Owner

Action must be taken so the IRA is able to pay out the nonperson’s full interest no later than…

September 30th of
the year following the account owner’s death.

NAMING A NONPERSON (CHARITY) AS CO-BENEFICIARY (CONT.)



If a nonperson's account is <u>not</u> paid in full by the September 30, then …

proceeds must be fully distributed by December 31 of the year that includes *fifth* anniversary of death

Margaret

EXAMPLE

Margaret designates United Way and her grandson Thomas as 50/50 primary beneficiaries of her IRA.

United Way

Thomas

Margaret died in August 2017.

NAMING A NONPERSON (CHARITY) AS CO-BENEFICIARY (CONT.)

Margaret

Thomas

United Way must be fully paid out by September 30, 2018, or Thomas will lose the ability to stretch out payments over his life expectancy.

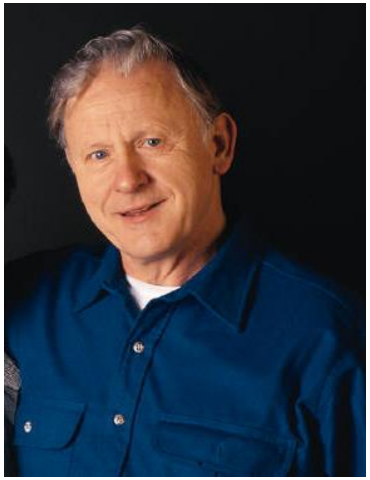
Margaret

What if the charity drags its feet in completing its paperwork?

United Way

What if Thomas thinks everything is moving along and it's not?

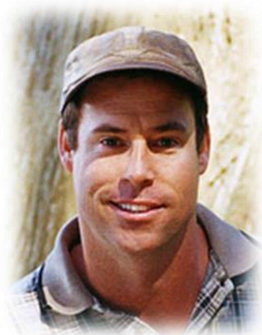
Thomas



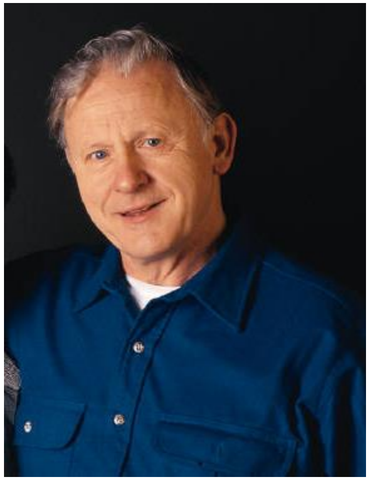
Steven

Hypothetical Case Study:

Steven has just passed away at age 75, leaving a $300,000 traditional IRA.

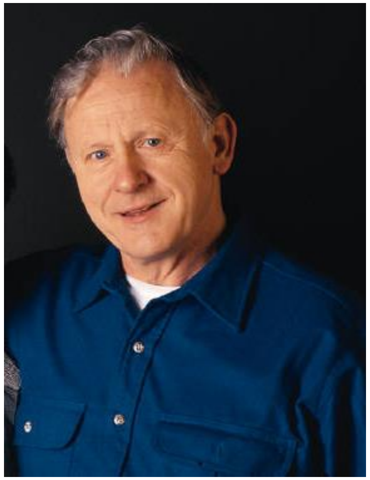

He named his three sons – Bart, Edward and George – as equal beneficiaries.



Steven

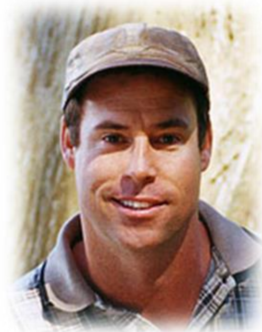
Hypothetical Case Study:

What are their options?



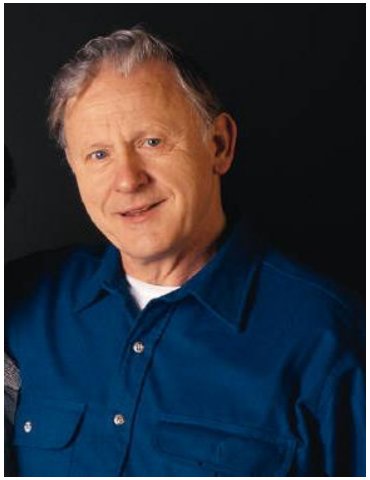
Steven

Hypothetical Case Study:



Beneficiaries can:

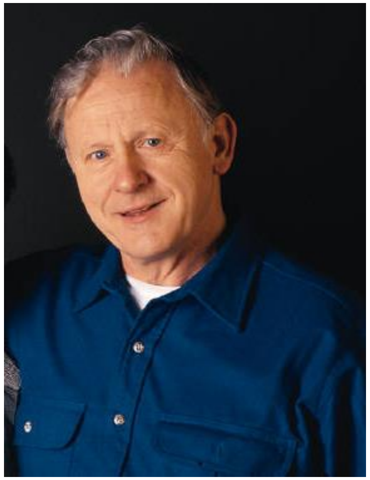
1. Take distributions from a single inherited IRA, or
2. “Split” into three separate inherited IRAs



Steven

Hypothetical Case Study:

What is the difference?



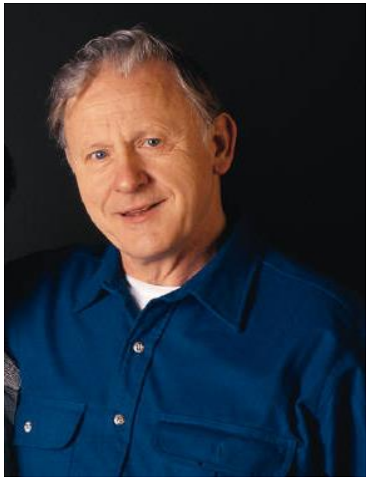
Steven

Option 1	Distributions from a single inherited IRA

Beneficiaries must take distributions based on the life expectancy of the **oldest** beneficiary.

Son	Current Age	Years for Payout (IRS life expectancy*)
Bart	**50**	**34.2**
Edward	**45**	**34.2**
George	**40**	**34.2**

*IRS Single Life Expectancy Table for Inherited IRAs.



Steven

Option 2	Split into three inherited IRAs

Here, each beneficiary can take distributions based on his **own** life expectancy.

Son	Current Age	Years for Payout (IRS life expectancy*)
Bart	**50**	**34.2**
Edward	**45**	**38.8**
George	**40**	**43.6**

Additional 4.6 Years Payout

Additional 9.4 Years Payout

*IRS Single Life Expectancy Table for Inherited IRAs.

IRA VERSUS 401(K) BENEFICIARY RULES

401(k)

Qualified plans are generally subject to ERISAs "spousal consent rule"

Spouse must be the sole beneficiary unless…he/she provides spousal consent

1. Written form
2. Witnessed by a plan representative or notary public
3. Updated beneficiary form

- Pre-Nuptial Agreement – does not constitute spousal consent
- Post DOMA
  - Same-gender married couples

IRAs

Federal law does not mandate spousal survivorship rights for IRAs

- Exception: IRA providers generally require spousal consent in community-property states

Have any life changes occurred?

Is a new beneficiary form needed?

- Marital status (marriage, divorce, remarriage)
- Death of a beneficiary (primary and/or contingent)
- Birth of child
- Adoption
- Law changes
- Moving *to or from a community* property state
- Other life events

NAMING A TRUST

There is *<u>no tax benefit</u>* that can be obtained with a trust that….

- Cannot be obtained without a trust

Trusts are to be used solely for non-tax purposes

What are trusts used for?

CONTROL of…

- Post-Death distributions

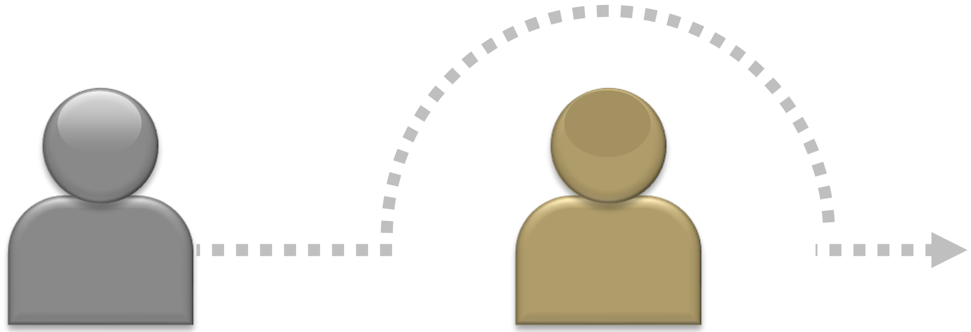
Naming a trust (permitted) but:

- Must follow strict IRS guidelines
- “Look-through” or “see-through” trust
- All beneficiaries must be individuals.
- Multiple trust beneficiaries should be relatively close in age.

CAUTION!

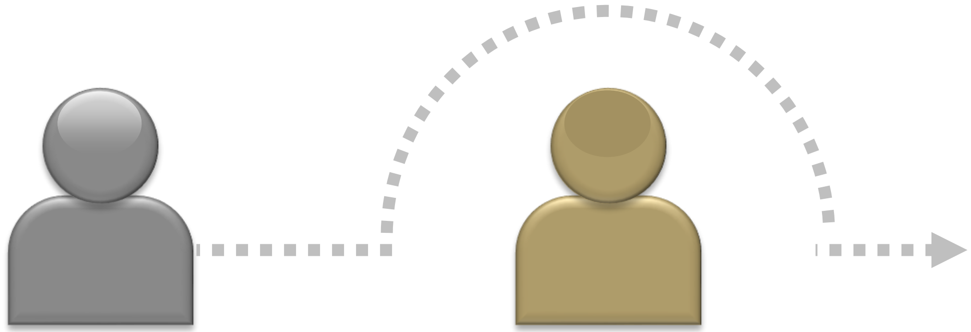
DO *NOT* MOVE IRA INTO THE TRUST WHILE LIVING!!!

DISCLAIMING



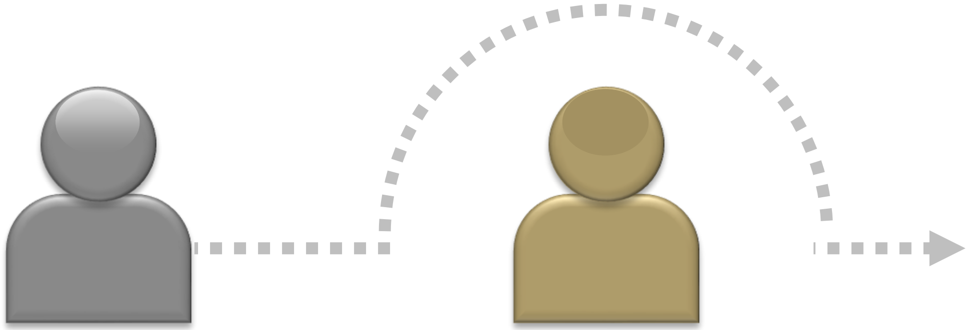
What is a disclaimer?

- Formal refusal to accept an inheritance
- Legal document – generally prepared by an attorney that must be…
  - Irrevocable and in writing



What is a disclaimer (cont'd)?

- Disclaiming can be useful in post death planning
- Know who will inherit before disclaiming
  - Generally contingent beneficiary
- Partial disclaimers permitted
- *Person who is disclaiming cannot have previously "accepted" benefits*
  - Includes: taking distributions, transferring and/or re-titling account, investment changes, etc.



DISCLAIMER DEADLINE:

Written disclaimer must be delivered to the custodian within nine months of the IRA account owner’s death.

DOS AND DON'TS WITH INHERITED IRAS

You've inherited an IRA.
What now?

Non-spouse beneficiaries have options upon inheriting an IRA

1

Liquidate IRA immediately

- Entire amount (minus any basis*) will be subject to income tax
- 10% early distribution penalty tax **does not** apply

2

Begin taking distributions (based on beneficiary's life expectancy) **no later** than December 31 of the year following the account owner's death ("**stretch**" **payout**).

3

If distributions are not initiated, generally IRAs are to be liquidated by December 31 of the fifth year following death ("**five-year rule**") although…

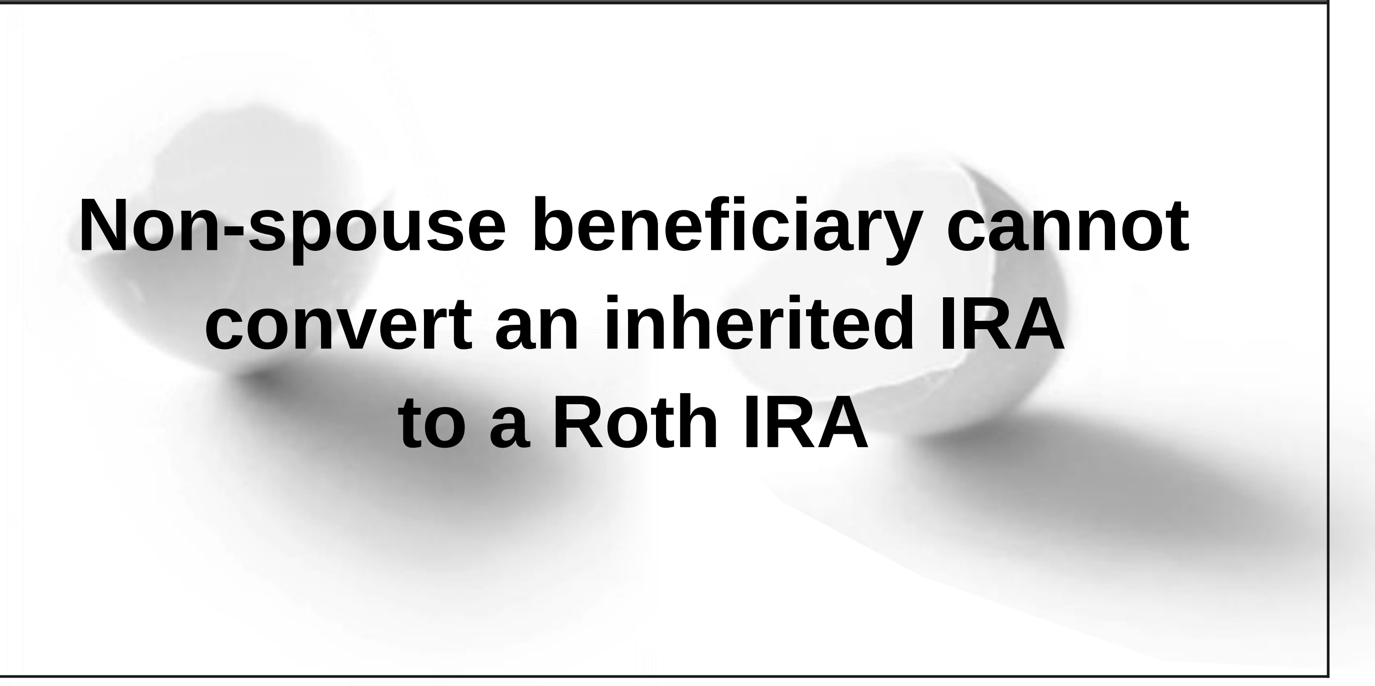
- No required annual minimum distributions
- Entire account must be paid out in full 5-years post-death

*The tax basis of an IRA refers to the after-tax contributions made to IRA accounts. Roth IRAs have a tax basis equal to the amount of contributions because all Roth IRA contributions are non-deductible.

What not to do:

Non-spouse cannot rollover a distribution (60-day rollover not permitted)

What not to do:



Non-spouse beneficiary cannot convert an inherited IRA to a Roth IRA

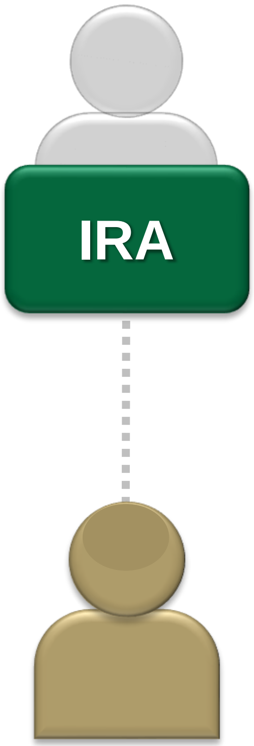
5. REQUIRED MINIMUM DISTRIBUTIONS (NON-SPOUSE BENEFICIARY)

What not to do:

Non-spouse beneficiary cannot combine an inherited IRA with their own IRA

INHERITING DECISIONS (NON-SPOUSE BENEFICIARY) (CONT.)

Upon account owner's death, IRA ownership <u>immediately</u> passes to the beneficiary.



Inherited IRA should be retitled:

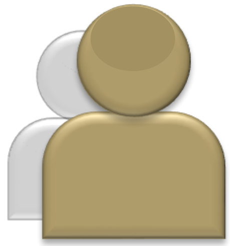
JAMES JONES, IRA DECEASED (JANUARY 2, 2018)

F/B/O: JOHN JONES, BENEFICIARY

Use beneficiary Social Security number (not decedent)

Spousal beneficiary:
Now what?

Choices as a Spousal Beneficiary

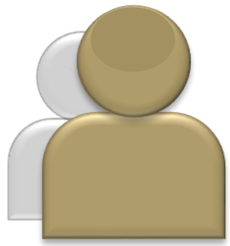


1

Spousal Rollover

- Permitted whether deceased spouse died before or after taking RMDs
- 10% penalty reattaches

Your Choices as a Spousal Beneficiary:

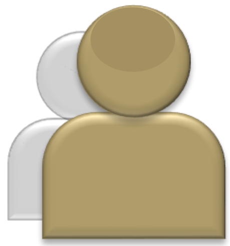


2

Treat deceased spouse's IRA as the surviving spouse's own IRA

- Election can be made any time after the account owner's death
- Surviving spouse must be sole beneficiary

Your Choices as a Spousal Beneficiary:



3

Remain a beneficiary

- Account owner dies prior to their Required Beginning Date and surviving spouse is the sole beneficiary

IRA

- Spousal IRA
- Spousal rollover
- Roth conversion (inherited IRA)
- More favorable RMD rules
    - Spouse is more than 10 years younger
    - Joint Life Table

Qualified Plans (401(k)

- Qualified joint and survivor annuity (QJSA) / Qualified pre-retirement and survivor annuity (QPSA)
- Rollovers
- Qualified domestic relations order (QDRO)
- Required minimum distributions (RMDs)
- Beneficiary planning / death benefits

ROTH CONVERSIONS

Other Considerations

- Non-retirement funds to cover taxes
    - Permitted to pay taxes using IRA assets however…
    - 10% penalty for those younger than 59 ½
- Increased income (year of conversion)
- Potential tax bracket “bump”
    - Federal and/or state
- Potential Increased Medicare Premiums (Part “B” and “D”)
- Potential social security benefit taxation
- Alternative Minimum Tax
- Deductible Medical Expenses
- Phase out - Other income based government programs, benefits, deductions, credits
- Non-spouse beneficiary is <u>not</u> permitted to convert an inherited IRA to a Roth IRA
- Non-spouse beneficiary <u>can</u> convert an inherited 401(k) directly to a Roth IRA

58

Why consider a Roth conversion?

- Low tax rate environment
  - Rates scheduled to increase in 2026
- Potential tax-free distributions
- No lifetime required minimum distributions
  - Account owner and surviving spouse
  - Exception…Roth 401(k)/403(b)/457(b)

Additional Advantages:

- Legacy planning—ability to "stretch" potentially tax-free income to beneficiaries
- Potential to lower or avoid taxation of Social Security benefits
- Potential lower Medicare Part B premiums
- Basis first withdrawals
- Recharacterization

ACTION PLAN

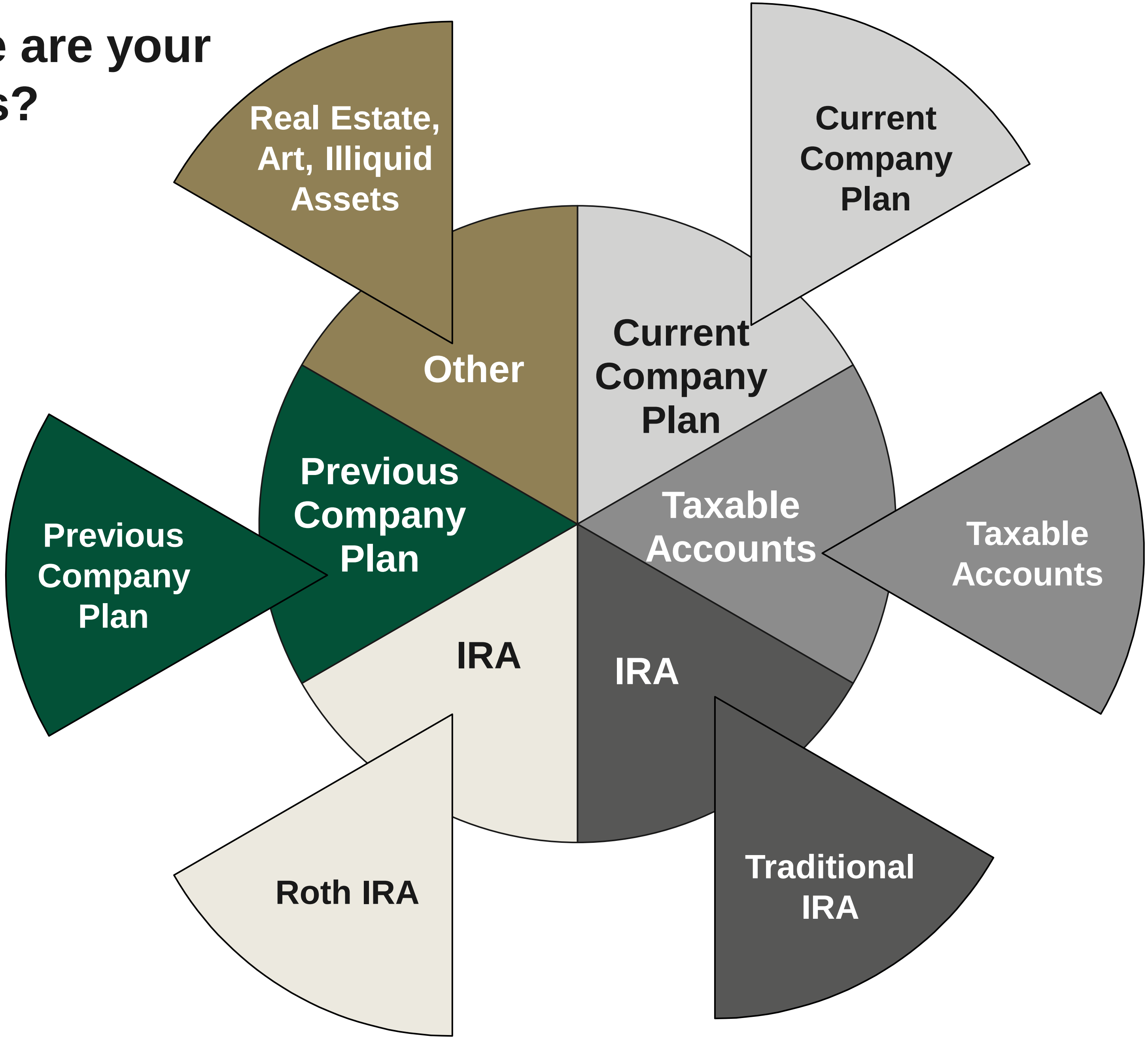
Ask your advisor to conduct a beneficiary review

Review all retirement accounts	Situations where your advisor can help:
Have you left any retirement plans behind?	**Life changing events** Review and update forms as needed
How would you like the assets to be passed?	**Multiple retirement accounts**
How much control (trust) do you want for your heirs?	**Multiple beneficiaries** Age differential • Non-individual (estate, charity)
	Qualified plan vs. IRA beneficiary rules

How much control (trust) do you want for your heirs?

“stretch” payout strategy

Where are your assets?



POTENTIAL BENEFITS OF RETIREMENT ASSET CONSOLIDATION[1]

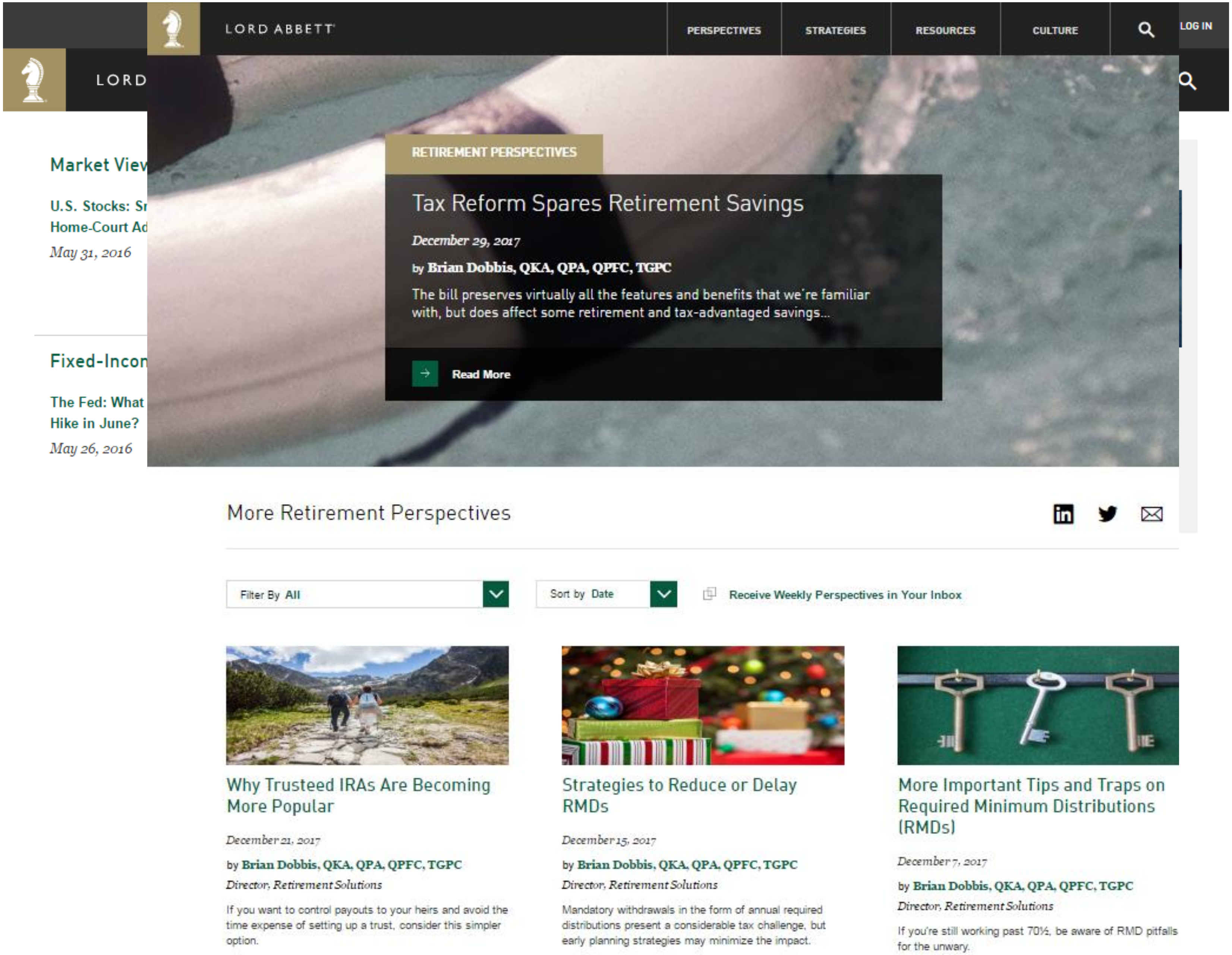
1. **Less paperwork**
2. **Easier to develop a balanced strategy**
3. **Easier to assemble a diversified portfolio[2]**
4. **Easier to monitor performance**
5. **Easier to calculate RMDs[3]**
6. **Easier to track beneficiary options**
7. **Work directly with your financial professional**

[1] Combining and consolidating assets with an IRA rollover may result in transaction costs, fees, or charges to the investor.
[2] Diversification does not guarantee a profit or protect against losses in a declining market.
[3] RMD: Required minimum distribution.

Your financial professional could help you with:

- Setting retirement goals
- Determining retirement income
- Keeping you on course
- Beneficiary Planning
- Estate Planning
- Legacy Planning
- Guiding you through the maze of retirement account rules, concepts and strategies

RETIREMENT PERSPECTIVES: LORDABBETT.COM



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