

WHAT'S

HOT

in IRA Rollovers

**INDUSTRY EXPERTS BRUCE BEATY AND JAMES R. WAGNER
SHARE TIPS ABOUT HOW ADVISORS CAN HELP HIGH-END
BOOMERS PREPARE FOR A TAX-FREE RETIREMENT;
REDUCING TAXES (AND POTENTIAL TAX PENALTIES)
ON IRA EARNINGS; AND IRA CONVERSION IDEAS »»**



SPECIAL SECTION: WHAT'S HOT IN IRA ROLLOVERS

How to help high-end boomers prepare for a tax-free retirement

By Bruce Beaty

Roth IRAs are attractive retirement vehicles for three reasons. First, contributions and growth are tax-free, when structured properly. Second, there is no minimum required distribution at age 70½. And, finally, the death benefit is tax-free.

It's obvious why most people would want to take advantage of Roth IRAs, but many high-income boomers — both singles and couples — are limited to minimal or no contributions. They cannot take full advantage of benefits offered by this particular retirement vehicle. Moreover, singles or couples making more than \$100,000 yearly cannot convert from an IRA to a Roth IRA.

But there is a way to help your higher-income clients convert to a Roth IRA, via specific planning strategies and products. Look for a fixed index annuity with at least a three-year reset crediting strategy that accepts 100 percent of the client's premium. No interest is credited until after 2010, when the income limitation on conversions ends. Avoid bonus index annuities — they will trigger a tax when the account is converted.

For your client's benefit, also look for a vehicle that allows flexible contributions and offers double-digit caps. Once you've found a fixed index annuity that meets these criteria, follow three simple steps, as illustrated in the following example:

Let's assume your clients are a married couple filing jointly, both over 50, and making more than \$160,000 yearly. Here is a high-level view of the steps

that will enable them to take advantage of Roth IRA benefits:

1. Establish "His" and "Her" standard IRAs, funding them with the maximum yearly contribution of \$5,000 each. Because the clients are over 50, an additional \$1,000 contribution is taken. Continue funding the IRAs at maximum levels through 2010. At current rates, these clients will have contributed \$12,000 a year for three years, for a total of \$36,000. (Remember, no 401(k) contribution can now be made.)
2. Convert the IRAs into Roth IRAs in late 2010, when the income limitation ends and everyone can legally make conversions, regardless of income level. Make the conversion *before* any interest is credited, to ensure your clients don't have to pay a tax upon conversion. Both clients continue making the maximum contribution for the next five years. This ensures that the retirement funds meet the requirements for qualified (tax-free) distribution as long as the clients are over 59½.
3. By 2015, these clients' Roth IRAs will be worth well over \$100,000 (the \$36,000 conversion amount, \$60,000 added over the next five years, plus the accrued interest). The principal and interest can both be taken tax-free, because they meet the qualified distribution requirement.

This is a great strategy to help establish your credentials with boomer clients — and it positions you to help them with those 401(k) rollovers when they retire! >>>



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JAMES R. WAGNER IS PRESIDENT AND CEO OF TRUST ADMINISTRATION SERVICES CORP. HE HAS OVER 30 YEARS OF EXPERIENCE IN THE FINANCIAL SERVICES INDUSTRY AND IS AN ATTORNEY WHOSE PROFESSIONAL EXPERTISE INCLUDES THE AREAS OF SECURITIES LAW, TRUST ADMINISTRATION, RETIREMENT PLANNING AND EMPLOYEE BENEFITS. VISIT HIS COMPANY AT WWW.TRUSTLYNK.COM.



5 tips to reduce taxes on IRA earnings and, conversely, avoid penalties

By James R. Wagner

1. Advisors should enable clients to maximize the nature of growing money tax-free with a Roth IRA, whether they are investing in traditional stocks and bonds or alternative assets like private stock, real estate, tax liens and others.
2. The Solo 401(k) has higher contribution limits and allows tax-deductible 401(k) salary deferrals to the plan of up to \$15,500 for 2008 and should be examined as opportunities for the self-employed. These plans allow self-employed individuals or business owners with no employees other than a spouse to defer more of their income while aggressively saving for retirement. Additionally, individuals aged 50 or older can make an additional catch-up salary deferral contribution of \$5,000 for 2008. And business owners can make tax-deductible profit-sharing contributions up to 25 percent of compensation, with an annual maximum of \$46,000 for the year. Differences between the maximum contributions for other plans, like the SEP IRA, can be substantial. A self-employed business owner, age 50 with \$100,000 in compensation, may save up to \$20,000 more with a Solo 401(k) than with the traditional SEP-IRA or profit sharing plans. Additionally, the Solo 401(k) allows participant loans, unlike its predecessors. Tax-free loans are acceptable in a Solo

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- 401(k) up to 50 percent of the total 401(k) value with a maximum of \$50,000. In addition to investing in stocks and bonds, and as with a traditional IRA, individuals with Solo 401(k) can also invest in alternative assets, such as private stock, real estate, tax liens, in these plans.
3. Advisors need to stay on top of required minimum distribution deadlines and set reminders in a timely fashion — IRA owners can be forced to pay 50 percent excise tax on amounts not taken out by the specified timeframe.
4. Be aware of every IRA account the client has and consolidate accounts where possible to avoid miscalculations on RMDs and resulting hefty tax penalties for clients.
5. Advisors should make sure accounts are liquid enough to cover RMDs, such as with accounts that may include illiquid alternative assets such as real estate, trust funds, etc. Before RMDs begin, advisors might want to consider consolidating funds from other accounts. ■

3 tips for converting to/from a Roth and other accounts

By James R. Wagner

1. Investors should be careful about consolidating retirement accounts. Consolidating IRAs can sometimes result in combined deductible and non-deductible accounts, and this can lead to confusion when it comes to figuring out taxes. The unfortunate result might be that clients would have to pay improperly computed taxes and fees later. Advisors should make sure that they are not combining deductible and non-deductible accounts in conversions.
2. Be careful of triggering taxable events, particularly when taking the money personally and then later rolling it over to an IRA.
3. The year 2010 presents a wonderful opportunity for many individuals to convert to a Roth IRA, and this should be something advisors start thinking about. As a result of the Tax Increase Prevention and Reconciliation Act of 2005, the \$100,000 modified gross adjusted income ceiling in converting a traditional IRA to a Roth goes away in 2010. Advisors can spread the tax impact for their clients over a two-year period for 2011 and 2012. Conversely, plans that are converted to Roth IRAs for clients in 2011 or 2012 (or any time in the future after 2010), will get taxed on everything all in that one year.