financial literacy series

50 Good IRA Ideas

Making the Best Use of IRAs

Tax, Investment, Estate Planning and Roth Ideas

Leon LaBrecque, JD, CPA, CFP®, CFA

Small Good Choices™

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Personal Finance for Young Professionals

Building Your Plan to Financial Independence

50 Good IRA Ideas

Making the Best Use of IRAs:
Tax, Investment, Estate Planning and Roth Ideas

50 Good 401(k) Ideas

Making the Best Use of 401(k) Plans:
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Trustee Manual

Guidelines for the Successor Trustee of Your Living Trust

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Leon C. LaBrecque, JD, CPA, CFP®, CFA

4th Edition

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ISBN: 978-1-4951-7306-6
Printed in the United States of America.

"It should be called the 50 **best** *IRA ideas. Sequoia Financial Group has hit the ball out of the park, as usual."*

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"50 Good IRA Ideas shows the interesting ways you can use IRAs to amplify wealth. Some of the Roth conversion ideas are truly useful."

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About the Author

Leon LaBrecque has invested more than thirty years in pursuit of one goal, enriching the lives of everyday people by helping them understand their financial lives. As a CPA, a CFP® and a CFA, he is passionate about making the complex world of financial planning, investing, retirement planning and taxation simpler and more accessible. Whether he is spending time with college students or CEOs and business owners, Leon embodies the principle of placing the best interest of his client at the heart of everything he does.

After growing up in Hazel Park, Michigan, graduating magna cum laude from University of Detroit Mercy with degrees in accounting and law, Leon has devoted his life to advancing financial literacy. He has spent countless hours serving his community as a speaker, an author and champion for causes like the Hazel Park Promise Zone. He's authored multiple books sharing ideas for retirement planning and financial literacy. He's been featured in media outlets like InvestmentNews, CNBC, USA Today, and Forbes, (also contributing to Forbes.com on issues of pensions, retirement and IRAs). Leon is more than a talking head, he's a leading voice drawing attention to the benefits of financial literacy and comprehensive planning.

As the Chief Growth Officer of Sequoia Financial Group, he serves with a team of advisors, assisting them in striving for excellence in client service and financial planning. His leadership is anchored in his lifelong belief that collaboration and teamwork result in stronger communities, he freely shares ideas and practical know-how. LaBrecque brings to the table a mind that never rests and a catalog of life experiences that allows him to deeply connect with his clients and understand their individual needs. He is dedicated to helping people reach their financial goals and live their best possible life.

When he's not helping his clients prepare for a thriving retirement he enjoys spending time with his wife and children, hunting and fishing in Michigan's beautiful outdoors, and relaxing through yoga and poetry.

About Sequoia Financial Group

Sequoia Financial Group is an independent, fee-based wealth management firm headquartered in Akron, Ohio with offices in Cleveland and Beachwood, Ohio, Troy and St. Clair Shores, Michigan and Tampa, Florida. The company has been offering comprehensive fiduciary wealth management services since 1989. Its team of experienced advisors has a unique way of connecting with clients to help them feel confident, secure and ready for the future. Tax Planning, Financial Planning, Estate Planning, Investment Management all come together to optimize clients' wealth. Detailed Social Security analysis, Monte Carlo simulations, and IRA planning are all components of the company's holistic approach.

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The world of Individual Retirement Plans is an area where there is vast opportunity and vast complexity. I've compiled a list of planning ideas and opportunities in the area. I also recommend the materials of Natalie Choate, Michael Kitces and Ed Slott. Natalie's book, *Life and Death Planning for Retirement Benefits*, is a must read for tax wonks like me. Michael Kitces' website, kitces.com, has the "*Nerd's eye view*" of articles and education in Financial Planning. From one nerd to another, I like Mike. And Ed Slott's "*2017 Retirement Decisions Guide*" is a great read on IRA Advice. Ed is the dean of planners. For everyone else, I hope the 50 ideas are useful. Note the icons next to the topics. Some ideas may cover more than one topic, and will have multiple icons. You'll probably read these out of order. I think you will find at least some of the ideas useful. Obviously, if you need help with an idea, reach out to us at info@sequoia-financial.com or my personal e-mail at llabrecque@sequoia-financial.com. Thanks for reading.

TAXES **taxes**

roth

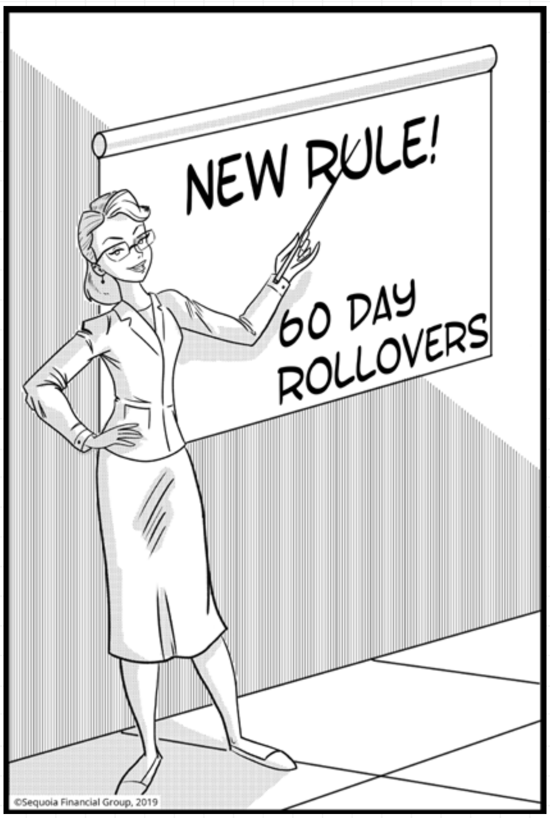
beneficiary

gifting

legal

investing

Idea 1:



Rule on 60-day rollovers.

There is a relatively new rule from the Tax Court case of *Bobrow* which now allows only one 60-day rollover per year[1]. Prior to this case, you could take a distribution from an IRA in your name (not taking withholdings), use the money for personal use and roll it back into the IRA within 60 days and no tax would be incurred for using the funds. You previously could do this with more than one IRA, allowing you to effectively get a series of tax-free loans from all of your IRAs. The IRS even indicated, in Publication 590, that you could do a 60-day rollover from each IRA separately. The Tax Court since then disagreed with this position and has ruled that you may now only take one 60-day rollover from any one of all your IRAs in any 12-month period. If you do decide to take a rollover (where you use the money), do only once from only one of your IRAs within the 12 months.

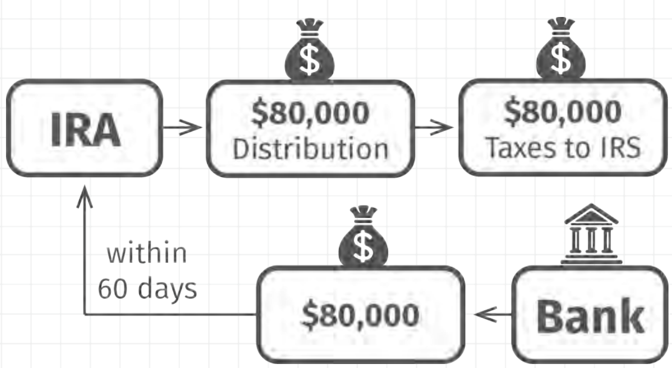
[1] *Alvan L. Bobrow et ux.,* 107 T.C.M. 1110 (2014)

Idea 2:

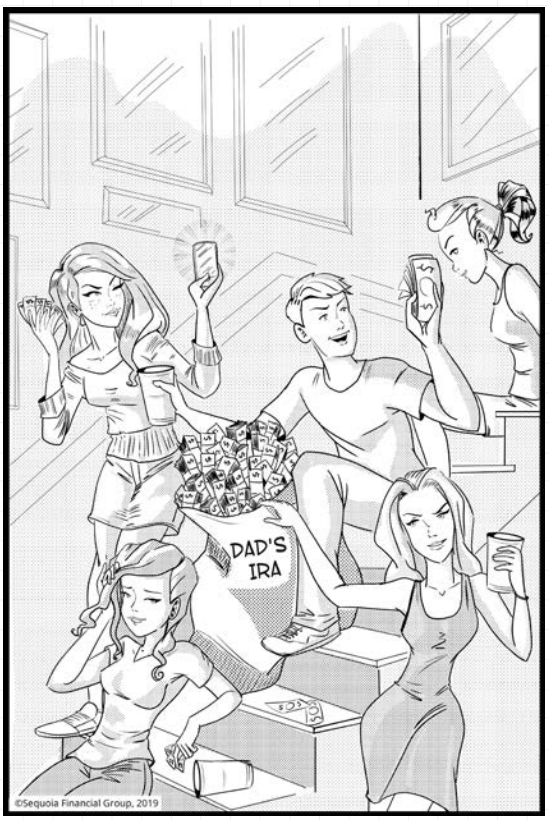
A good use of the IRA rollover rule.

Despite the restriction on multiple rollovers from multiple IRAs, here's a good use of the rule. IRA distributions allow the owner to withhold taxes on the distribution. If taxes are withheld from an IRA distribution, they are deemed to be equally withheld throughout the year. This can be of great benefit if estimates are underpaid.

Leon's example: Suppose Leon owes $80,000 more in taxes than he has paid estimates on. He has the money in the bank, but missed two estimated tax payments. He will be penalized for underpayment if he catches up on the third estimate by writing a check. Instead, he takes an $80,000 distribution from his IRA and withholds 100%. Within 60 days, he rolls $80,000 from his bank account back into the IRA. The 60-day rule does take into account tax withholding, so the only rule is that if $80,000 comes out, $80,000 has to go back in. So what is the end result? $80,000 of withholding will be deemed to have been made on a timely basis, thus no tax penalty would be assessed for missing a quarterly estimate.



Idea 3:



Rule on Inherited IRAs.

In 2014, the Supreme Court made a landmark decision in the case of *Clark v. Rameker*[2]. The Court held that inherited IRAs were not subject to the asset protection of a regular IRA or spousal IRA. In this case, the daughter of an IRA owner inherited her mom's IRA. The daughter ran into business trouble with her husband and they declared bankruptcy. The creditors went after the IRA. The Supreme Court ruled that the IRA was subject to the claims of creditors. So now, we not only have to worry about the kids and possibly the spouse of the kids squandering our IRA, but the creditors of the kids getting the IRA. Fortunately, there's a solution (see idea 4).

[2] *Clark v. Rameker,* 134 S. Ct. 2242 (2014)

Idea 4:

Protect the kids from the money and the money from the kids.

Given the far-reaching implications of the Supreme Court case, *Clark v. Rameker*, we think inherited IRAs should be protected. The first protection is to keep the kids from taking too much out too fast and paying too much in taxes. With an inherited IRA, if you do it right, the money can be distributed over the life expectancy of the beneficiary. So if Tom dies and leaves his IRA to an infant, she can crawl over to Table I[3] and see that her life expectancy is 82.4 years and take her IRA distributions over 82 years! However, I said she *could*, not *would*. The IRA rules state that the Required Minimum Distribution (RMD) is over the life expectancy of the beneficiary. The beneficiary can take additional funds sooner (more than the RMD amount), anytime they want.

So one thing we may want is some way to mandate that the beneficiary take the RMD only, unless there's a good reason. We can do this through an IRA Conduit Trust. This type of trust takes the RMD and distributes it to the beneficiary. An independent trustee can distribute more to the beneficiary if the trustee sees fit.

So the Conduit Trust protects the IRA from the kids taking too much out, but what about creditors? A well-constructed IRA trust will have a spendthrift clause to protect the assets of the IRA. This clause will keep creditors away from the IRA balance. If the trust provides that the distribution is made to the beneficiary, the beneficiary can obviously collect on the distribution, but the spendthrift clause keeps the creditors at bay.

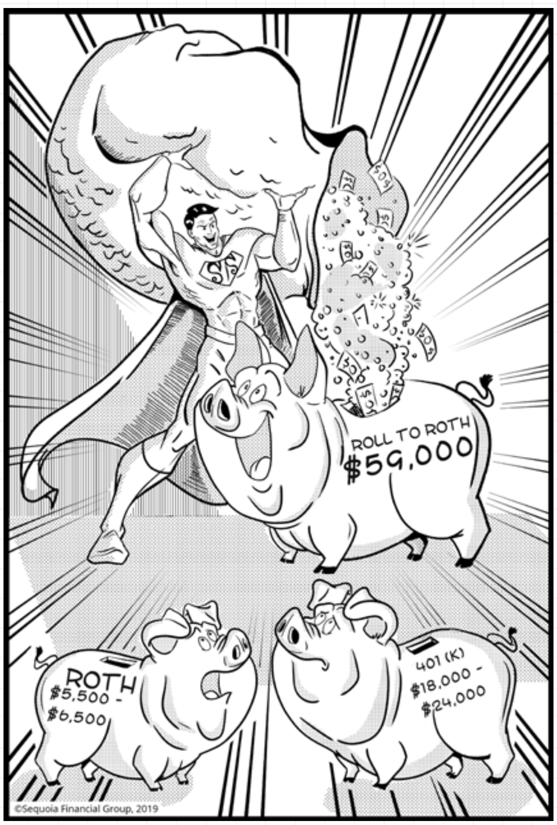
IRA trusts should be done on a per-account basis. Each kid should have either their own trust or a sub-trust which is part of the main IRA trust. I use a sub-trust for my kids.

There is another kind of IRA trust, called a 'Toggle' Trust. Here, the trustee can take the distribution into the trust and either give it to the beneficiary or retain it in the IRA trust. This might be used when the child or grandchild has credit or personal problems. (Lots of complexity and tax issues here.) In all cases, use a separate IRA trust rather than a revocable living trust, and in the case of a 'toggle' trust, use an expert to draft the trust language.

Note in early 2019, the House and Senate introduced two bipartisan bills that significantly curtail stretch IRAs. Pay close attention to this legislation, the SECURE (House) and RESA (Senate) Bills.

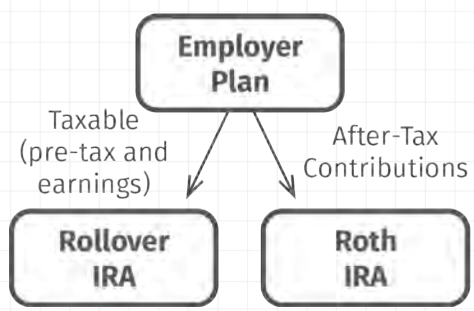
[3] IRS Single Life Expectancy Table

Idea 5:



Double your IRA firepower if you have after-tax money in a Qualified Plan.

There's a rule, IRS Notice 2014-54[4], that tells us how to handle after-tax contributions in a qualified plan. Who has after-tax contributions? Well, Ford (SSIP) and GM (SSPP) salaried employees have been able to make after-tax contributions to their 401(k) plans for years. Many municipalities have after-tax contributions to their pensions for police and firefighter annuity withdrawal. This new rule says you can roll over the taxable portion to a regular IRA and rollover the after-tax portion directly to a Roth IRA. This is a fabulous planning opportunity, since it takes the taxable monies and defers the tax on the earnings and contributions, and allows the after-tax monies to grow tax-free while being held within a Roth. This means that you need to direct the plan to have two rollovers: One to the conventional Rollover IRA and one to your Roth.



[4] Notice 2014-54, 2014 I.R.B. 670

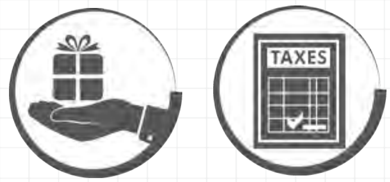
Idea 6:

Watch out for hard-to-value assets.

The forms used by the IRS to indicate IRA assets and distributions (Form 5498 and Form 1099-R) now have a new box for certain assets, like real estate (see Idea 32) or under-traded securities, like limited partnerships. Be careful when using those assets in an IRA and consider whether holding them is worth IRS scrutiny. The problem lies in valuation. Suppose I have a non-traded Real Estate Investment Trust (REIT) in my IRA. I bought it for $50,000 and my broker shows it as worth that. In reality, it is only worth $28,000[5]. Now I attain age 70½ and need to take a $50,000 Required Minimum Distribution (RMD). I take the REIT as my distribution (you can take RMDs in-kind, see Idea 21). The IRS audits me (because the new Form 1099-R requires the custodian to tell the IRS that I took a hard-to-value asset distribution) and determines that my distribution was too small. I get fined 50% on the portion I failed to take as an RMD (50% of the $22,000). A suggestion is to sell those assets, unless they are a critical part of your IRA and you intend to potentially take it to the mat.

[5] Frequently, non-traded assets are valued significantly different than their purchase price. Broker-dealers will typically report them at original cost.

Idea 7:



An oldie and goodie, the Qualified Charitable Distribution.

This is a good one, which had been on-again and off-again by the year-end whims of Congress but has now been made permanent. If you are over age 70½ and taking Required Minimum Distributions (RMDs), you can give your RMD directly to a qualified charity. This is great from a tax standpoint because you don't include any portion of the Qualified Charitable Distribution (QCD) in your income. This may keep your social security benefits less taxable (because the taxability of your social security benefit is based on your Modified Adjusted Gross Income (MAGI) and the QCD is not included in MAGI[6]). Medicare premiums may also be lowered if Adjusted Gross Income (AGI) stays below certain thresholds. You can contribute up to $100,000 per year out of the RMD. It reduces gross income for federal and almost every state income tax. Charitable contributions made from an RMD, must be payable directly to the charity[7]: You may not donate to a Donor Advised Fund or charitable trust.

[6] I.R.C. §86(a)(2)

[7] I.R.C. §408(d)(8), §408(d)(8)(B)(i)

Idea 8:

The Kid Roth.

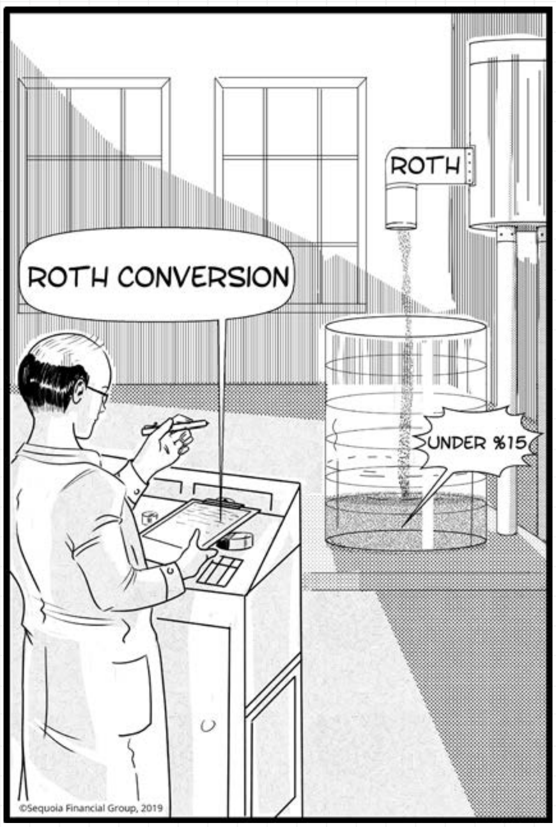
Roth IRAs grow tax-free. The power of compounding interest is amazing and the power of tax-free compounding is more amazing. The longer you have a Roth, the better it gets. Suppose a 16-year-old child has a summer or part-time job and earns over $6,000 for the year. Suppose the child does this through college until age 22. During that time, Mom or Dad (or maybe Grandma or Grandpa) deposit $6,000 in a Roth for said youngster, putting it in an index fund. For purposes of my example, let's say they put it in at the beginning of the year. Suppose the investment makes 7.5% annually. By the time the kid reaches 22, the Roth would contain about $57,000. If we left that alone until the kid was 65, the Roth would be worth over $1,270,000, all from seven $6,000 contributions. Did I mention that's $1,270,000 tax-free? But, what if we could instill in said child the notion of saving for retirement and encourage the kid to keep making their own Roth contributions until age 65. Even if the limits on contributions never changed, the kid would have $3,112,000 at 65. If (s)he took out 4%, that's over $124,400 a year tax-free during his/her retirement years. Of course, we have to get the kid to not touch the Roth. That is a parenting issue, not a money issue, and out of my pay grade.

Idea 9:

The Mom Roth.

Roth IRAs work best when the deposits are from a low tax bracket and withdrawals are from a high bracket. So, here's a use for a Roth conversion where an IRA holder (like a parent) is in a low bracket and the beneficiary is in a high one. My client's mother was in her 80s and in a nursing home, with significant long-term care expenses (which can be deducted as an itemized deduction). She had a conventional IRA and was taking Required Minimum Distributions (RMDs). Her tax bracket was effectively zero. All her children were paying taxes. We converted her Roth in two steps, both gearing to get her into the 10% bracket. The end result was essentially a tax-free Roth and no more RMDs. In this case we had enough money outside the Roth to pay for the mother's care. Otherwise, Mom could have been penalized if she withdrew from the Roth within 5 years of the conversion. This is a good example of a low bracket taxpayer (mom) converting for the benefit of a higher bracket beneficiary.

Idea 10:



Top your bracket.

Roth conversions are best when the conversion is made in a lower tax bracket. A lot of folks don't understand that if they have an IRA, they will probably be in a higher tax bracket at some point. The reasons include:

- The simple mechanics of Required Minimum Distribution (RMD) calculations. The RMD calculation is a fraction where the numerator is the IRA balance at the end of the previous year and the denominator is the life expectancy from an IRS table. It should be obvious that your life expectancy gets shorter as we age (Note: My favorite IRS quote out of Publication 590[8] is 'when you die, your life expectancy is zero'). Quite simply, this means an IRA distribution will get bigger and can get considerably larger, if the IRA investment earns a return greater than the distribution. Simply put, IRA distributions will generally increase and you must begin taking them at age 70½.
- The simple mechanics of spousal mortality. Many IRA owners are married and the IRA constitutes a portion of the couple's retirement wealth. Barring some mutual tragedy, one spouse will die first, leaving the IRA to the other. The survivor will likely file as a single person, and most likely be paying taxes in a higher marginal tax bracket.

So, knowing this, we can project your RMDs and your tax bracket. For people under age 70½ and over age 59½ who don't need the money, each year we like to convert an amount high enough to 'top off' the tax bracket.

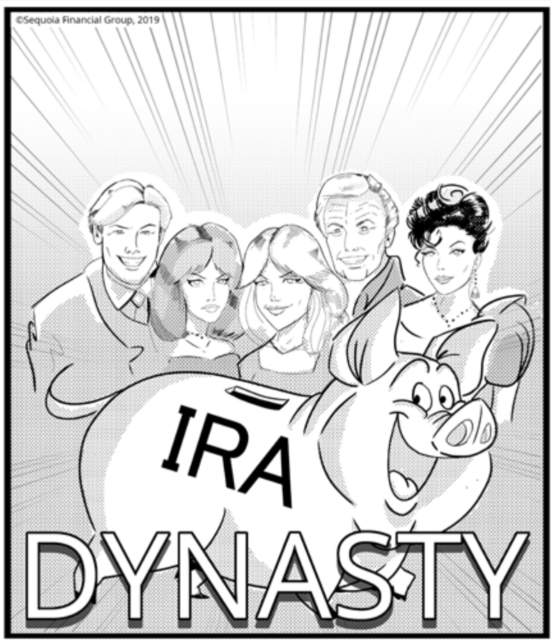
Here's an example: Suppose Helen and Joel are under age 70½, have a significant IRA ($1M), collect a couple of pensions and two Social Security benefits. Their adjusted gross income without any IRA withdrawals, is $70,000. This includes the taxable portion of their Social Security benefits. They are squarely in the 12% tax bracket. We'd point out to them that their RMD will probably be over $40,000, which will take them into the 22% bracket. We'd suggest moving some of the IRA into a Roth at the lower 12% rate. How much? Well, it depends on everyone's individual circumstances. In this case they could convert about $31,400 if they used the standard deduction ($70,000, minus $24,000 standard deduction, gives about $101,400 of AGI to be at the upper level, $77,400, of the 12% bracket for 2018). This would cost them about $3,768 in federal taxes (they may pay state taxes too, depending on their state). They clearly should pay the taxes on the Roth conversion from non-IRA sources.

The ideal "bracket top" is a younger retiree who doesn't need the money, possibly before collecting Social Security. We like to analyze Social Security "taking strategies" (meaning deciding when to actually take the benefit) and find that delaying collecting benefits (e.g., to age 70) can be a lucrative strategy. For someone temporarily in a lower bracket or for someone who can control their income, the bracket topping can be very valuable. Here's an example: Crassius and Evita are 62. They sold their business and have ample assets to live on, which are primarily invested in municipal bonds and dividend paying stocks. They have analyzed their Social Security taking strategy and have determined that the best approach is to have Crassius delay his benefit until age 70, while Evita is potentially collecting her own benefit. Their adjusted gross income is, for now, until Evita attains age 66, about $40,000, of which all are qualified dividends (they also receive $50,000 of municipal bond interest which is tax- free). Right now, their tax rate is effectively zero, since the dividend tax rate for taxpayers in the 12% bracket is zero and municipal bonds are exempt from income taxes. They can likely convert about $61,400 into a Roth. This will cost them about $7,400 in federal taxes and still keep their dividends tax-free. They can do this each year for at least 4 years and slightly modify the strategy. When Evita reaches age

66 and starts collecting half of Crassius' Social Security, by age 70 they would have Roth IRAs worth (at 7.5% growth) about $640,000 and would have only paid about $59,200 of federal taxes.

[8] Distributions from Individual Retirement Arrangements (IRAs), Pub. 590-B

Idea 11:



The Dynasty Roth.

Who wouldn't want a dynasty? This idea is actually pretty simple: Create a Roth, either by contributions or conversions, invest it for the very long run, leave it to your spouse and then leave it to a next generation, like grandchildren via an IRA trust (see Idea 4). Let's continue the example from Idea 10 of Crassius and Evita. Let's suppose that they converted $61,400 a year for 8 years following age 62 until they were age 70 (and turning 70½). This turned into about $640,000, which cost them about $59,200 in federal taxes on the conversions. They leave the Roth alone and make 7½% on investments. For our purposes, suppose that the Roth is in Crassius' name. Crassius lives until age 85 and leaves it to Evita under a spousal rollover. She lives until age 90 and leaves it to the twin grandchildren, Sacco and Vanzetti, in two IRA sub-trusts that allow them to take the RMD from the Roth until age 65, then distribute the money outright. The boys are age 18 on Evita's death. Let's see what happens:

- On Crassius' death at age 85, his Roth is worth about $1,898,000. Evita rolls it to her spousal Roth rollover. This is tax-free.
- Evita dies five years later at age 90 and the Roth is worth $2,725,000, which she leaves in an IRA trust to the twin grandsons.
- The grandsons begin receiving their RMD from grandmother's Roth. The annual distribution starts at around $21,000 each (which is tax-free!), but goes up every year, since their life expectancy is 65 years.

- By the time the grandsons are 65, they will potentially receive Roth IRAs worth $12.2 million each, plus they will have tax-free distributions of about $560,000 a year. Over their collection period, they will have received over $8.3 million in distributions and have an $12.2 million balance, which adds up to about $20.5 million each.

Not bad for $59,200 of tax. We'll call that a Dynasty.

Note in early 2019, the House and Senate introduced bipartisan bills to curtail the "stretch" IRA rules. Under either of those proposals, the grandsons would need to make their withdrawals sooner.

Idea 12:

How to have a Roth if you make too much.

Here is one I use for myself. Contributory Roth IRAs have an income limit (for married couple filing jointly, $193,000 - $203,000; single, $122,000 - $137,000, etc.[9]). Nondeductible IRAs do not. Roth conversions have no income limit. So I make a contribution to my nondeductible IRA, and convert it to a Roth later with no tax effect. Voila! I have a Roth.

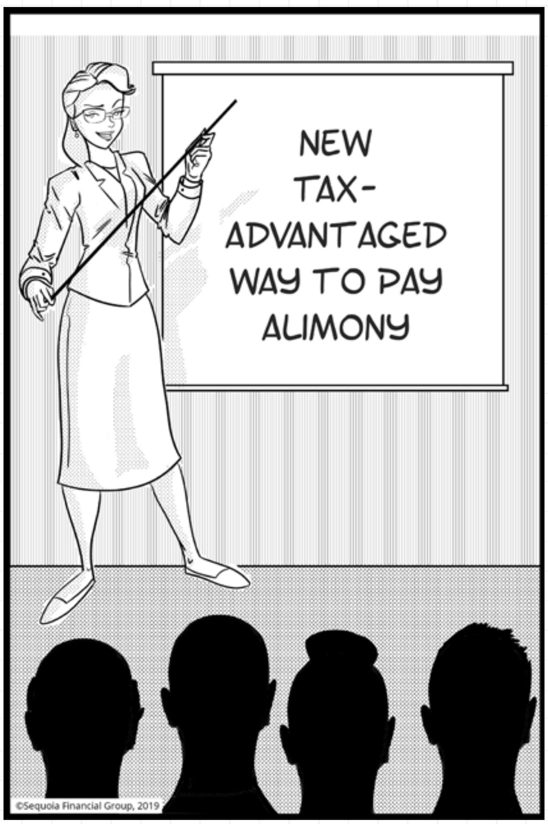
Some important points: First, note that this is a conversion, not a contribution. So conversion rules apply. Make sure you file a Form 8606[10] and a Form 5329[11] correctly on your tax return. Second, and this is important; to make this conversion tax-free, you should not have any other IRAs. When you convert an IRA to a Roth, all IRAs are aggregated. So if you only have a nondeductible IRA with $6,500 of after-tax contributions in it and no other IRA assets, that conversion is wholly tax-free. However, if you have $6,500 of nondeductible after-tax contributions in your nondeductible IRA and $58,500 of taxable funds in a Rollover IRA, you will have a taxable conversion for 90% of the nondeductible, even though you only converted the nondeductible IRA. Ed Slott calls this the 'cream in the coffee' rule: You can't get the cream (the taxable part) out of the coffee. You can make this work if you participate in a 401(k) or 403(b) by rolling your Rollover IRA into your 401(k), which will leave you with only nondeductible IRAs. Then you can have an unconventional Roth IRA.

[9] IRS Publication 590-A (2018)

[10] Form 8606, Nondeductible IRAs

[11] Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts

Idea 13:



New tax-advantaged way to pay alimony.

The new tax law makes alimony in divorces after 2018 (or arrangements modified after 2018) nondeductible. Prior to the new rules, alimony was deductible by the person who paid it and taxable to the person who received it. Under the new law, it is non-deducible and nontaxable. This new rule makes it possibly more attractive to use an IRA to pay the equivalent of alimony. How this would work is the payer would give the payee an IRA as the equivalent of a lump sum of alimony. Would it work? Yes, if the payee is in a lower bracket. A problem could exist if the payee is under 59½ and needs the money immediately. On the other hand, it could be a big benefit if the payee spouse is over 59½ or doesn't need the money for a while. The transfer of IRAs between spouses in a divorce is tax-free, and the IRA to the payee could keep growing.

Idea 14:

Fund your HSA with your IRA.

Health Savings Accounts (HSAs) are a widely misperceived planning tool. An HSA is available to individuals enrolled in a high-deductible health plan. You contribute pre-tax dollars to an HSA and withdraw the monies tax-free, as long as they are used for qualified medical expenses. There is no time limit on an HSA, so you can invest the funds tax-free, as long as the funds are eventually withdrawn for medical purposes. Medical receipts may be retained and used later, and HSA withdrawals can be used to pay Medicare B and D premiums. Some investors keep a file (with an on-line backup) of medical receipts for future use.

What a lot of folks don't know is that you can use an IRA to fund an HSA tax-free and penalty free. You can transfer no more than what the investor could have contributed to the HSA for the year. For 2019, that amount is $7,000, with an HSA catch-up of $1,000 for investors age 55 or older.

Worth it? If you moved $8,000 from your IRA into your HSA at age 52 (and didn't use it, but invested it at 7%), and retired at age 65, you'd accumulate about $19,000 tax-free. If you left that same amount in your IRA and withdrew it at a 22% bracket, you have only about $14,850.

This is a one-time only deal, but worth considering.

Idea 15:

In-service Rollover.

If you are working and at least 59½ and have money in a 401(k), you may be able to do what's called an in-service distribution from your 401(k). Your 401(k) plan can allow provisions to give you the ability to roll out of the 401(k) and into an IRA, but new rules allow you to access profit sharing and employer contributions if:

- The money has been in there for at least 2 years; and
- You have been a participant for at least five years (or the plan documents allow earlier)

The further good news is that you can roll any after-tax contributions to a Roth IRA and roll your pre-tax contributions to a conventional IRA.

Many people do the in-service to get a wider range on investment options than are in their employee plan. IRAs allow investments in a very broad range of investments.

Idea 16:

The Roth Estate Tax Reducer.

If you have a taxable estate (for 2019, figure approximately 40% of everything above $11M for single tax filers, or $22M for joint tax filers), converting a conventional IRA (Traditional, Rollover, SEP) could reduce the overall estate tax. It may seem counter-intuitive, but pre-tax IRAs would be double taxed to filers that are exposed to estate tax; once at the estate tax level, and again when the beneficiaries of the retirement account take distributions after inheriting the account. By converting to a Roth IRA, the owner will pay income taxes on the conversion which will reduce the amount of the estate that would be subject to estate tax upon the owner's death.

Here's an example: Janet has a taxable estate and is single. She is 77 years old, and will probably live to age 85. She has $14M of assets, $2M of which is in a Traditional (Rollover) IRA. Let's assume her IRA will grow at 7%, less the RMDs, which will go away if she converts the entire IRA to a Roth IRA. Let's also assume her non-IRA assets grow at a rate of 3%. She is taking RMDs on her IRA of about $95,000 a year, which are getting bigger because of the RMD rules. For Janet, doing a conversion will reduce the estate taxes by the income taxes paid on the Roth conversion, and the family will enjoy tax-free growth and distributions from the Roth upon inheriting the account. To make it work, Janet will pay the taxes on the conversion from non-IRA funds. Here's what it looks like:

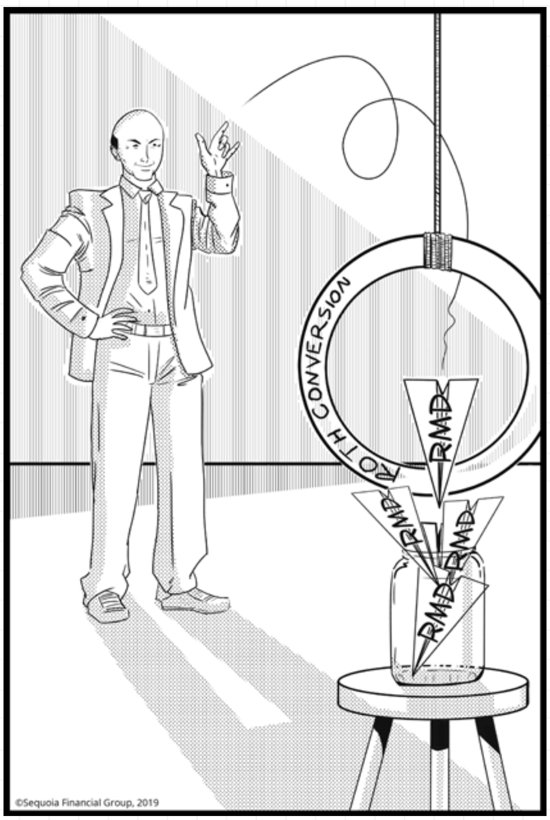
	No Roth Conversion		
Age 77	**IRA**	**Other**	**Total**
(Pre-Conversion)	$2,000,000	$12,000,000	$14,000,000
Age 85			
(Reinvest RMD)	$2,181,173	$16,774,500	$18,955,673
Estate Tax			$3,182,269
Income Tax	$817,940		$817,940
IRD Deduction*	($327,176)		($327,176)
Net			**$14,628,288**

	Roth Conversion		
Age 77	**Roth IRA**	**Other**	**Total**
(Post-Conversion)	$2,000,000	$11,250,000	$13,250,000
Age 85			
(Reinvest RMD)	$3,436,372	$14,251,163	$17,687,536
Estate Tax			$2,675,014
Income Tax	0		
IRD Deduction*	0		
Net			**$15,012,521**

* This is a deduction for "Income with Respect to a Decedent". It is an income tax deduction for the estate taxes paid on the prospective income taxes. Not all taxpayers can use the IRD deduction, and yes, it's complicated.

Bottom line for Janet's family is a net saving of at least $380,000 in total taxes, not counting the advantage of tax-free income to the kids or other beneficiaries.

Idea 17:



Use your Required Minimum Distribution to pay the taxes on a Roth Conversion.

This is a simple idea for people who have unwanted Required Minimum Distributions (RMD) (unwanted as in they don't need the money). So the idea basically is to take the amount of the RMD and fully withhold on it, converting the appropriate amount to a Roth to use up all of the tax or the RMD. So if I am in the 22% bracket, and my RMD was $18,000, I would withhold $18,000 in tax and convert $63,818. My IRA would be reduced by the RMD of $18,000 and the $63,818 Roth conversion, total $81,818. 22% tax is $18,000, or the RMD.

Idea 18:

Always pay taxes on conversions out of other non-IRA funds.

This one is easy. When you make a Roth conversion, or convert traditional taxable IRA funds into a tax-free Roth, you have to pay taxes on the conversion. The math is quite simple: You should pay the taxes out of non-IRA funds to maximize the conversion. Otherwise, the Roth becomes very similar to the IRA you transferred from, because you effectively made a distribution and Roth contribution of the after tax distribution. Pay the taxes from somewhere else, but not the IRA.

Idea 19:

When to take a spousal rollover and when not to.

When you die, if your spouse is named as your primary beneficiary, your spouse can roll your IRA into their IRA as a spousal rollover[12]. The spousal rollover is a good idea in many cases. The spouse treats the IRA as their own, so they can start taking their Required Minimum Distribution (RMD) when they reach age 70½. For a younger surviving spouse, this can be a big advantage, since they don't have to take the distribution until they reach 70½. Suppose Julie, age 60, survives Henry, age 72. Julie can roll Henry's IRA to hers and is not required to take distributions until she reaches age 70½. When she does take her RMDs, she uses a more favorable life expectancy table to compute the distributions. If the IRA were worth $500,000 and she made 7%, the IRA would be worth about $1M at her reaching age 70½. She would then take it out using the RMD table, which would let her take an RMD of about $31,000. If Henry left his IRA to a 60-year-old non-spouse, that person would have to begin to take distributions immediately and use their own life expectancy table. Higher accumulations are available with a spousal rollover.

However, a spouse may not want to use the spousal rollover when the surviving spouse is under 59½: If the surviving spouse is under 59½ and needs the money, the exemption to the 10% penalty (for under age 59½) for distribution upon death is better than the distribution options available under a spousal rollover. However, the surviving spouse may have to take a RMDs of their own, and their options upon the spouse's death are limited.

Another situation might be when the surviving spouse is much older than the decedent: Suppose in my example above, Julie had died before Henry. Henry may be better off leaving Julie's plan alone and taking her RMD when she would have attained the age of 70½. This is because a surviving spouse can take distribution on the required beginning date of the deceased person[13], which is typically September 30 of the year after the year the deceased died.

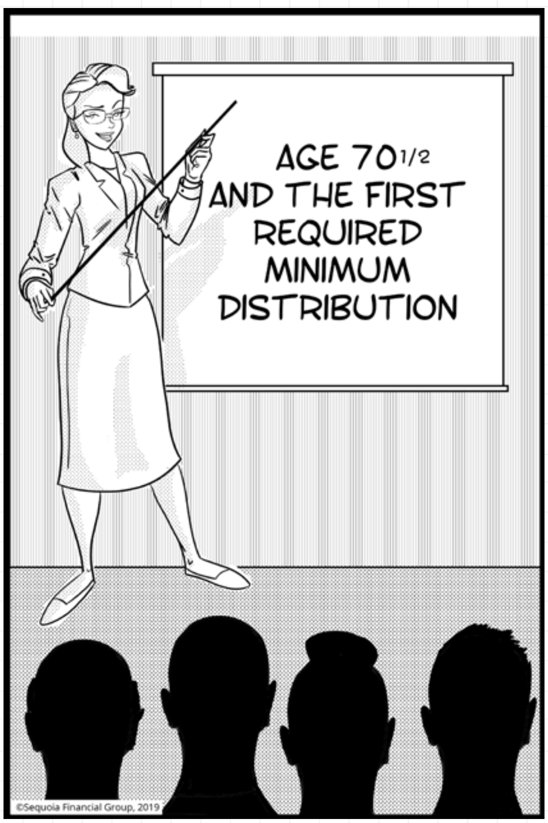
Roth IRAs are not subject to RMD rules and as such, allow additional tax-free growth by using the spousal rollover (See Idea 11).

Last point is that inherited IRAs are subject to the claims of creditors and spousal Rollover IRAs are not. If there is an asset protection issue, the spousal IRA affords more protection.

[12] I.R.C. §408(d) (3); Treas. Reg. 1.408-8. Q&A 5(a)

[13] I.R.C. §401(a)(9)(B)(iv)(I); Treas. Reg. 1.401(a)(9)-3, Q&A 3(b)

Idea 20:



Age 70½ and the first Required Minimum Distribution.

For perplexing reasons, the first Required Minimum Distribution (RMD) must take place by April 1st of the year following the year you turn age 70½[14]. So if Maurice turns 70½ on June 12, 2018, he could take his first RMD during 2018, or wait until April 1, 2019. But if he does that, he will have to take an RMD for both 2018 and 2019 in the 2019 tax year. Normally, taking two distributions in a tax year would have double the tax liability. However, certain times, it might make sense. For instance, taking the RMD in the first possible year (2018 in the example above) might cause Social Security benefits to be taxable, or if there was some other income in that year. The timing of the first year RMD provides an opportunity for tax planning.

[14] I.R.C. §401(a)(9)(C)

Idea 21:

Required Minimum Distributions in-kind after age 70½.

If you are taking Required Minimum Distributions (RMDs), you can take distributions in kind. The distribution comes out at fair market value and that is the basis of the distributed asset. So if you had XYZ fund or stock in your IRA and you wanted to keep it, you could take it as a distribution. You'd save the commission or costs, plus you may want XYZ because you think it has appreciation potential. It also stops you from selecting investments you may not want to sell and allows you take the subsequent appreciation as capital gains.

Idea 22:

Take your Required Minimum Distribution at the end of the year.

Once you are subject to a Required Minimum Distribution (RMD), you can take them any time during the year. You must take them, or be subject to a 50% penalty. So the question arises: When is the best time to take the RMD? The market has traditionally experienced an upward bias, so we ran a hypothetical case with real numbers. We took an IRA with 60% in the Vanguard S&P 500 index fund and 40% in the Vanguard Total Bond Index. We used the current Table III[15] chart (note that in our example, this chart was only used for distributions in 2003 or after) and the real returns from 1998-2017, presuming that the IRA holder was 70½ at the beginning. There are studies that show the timing of deposits or withdrawals diminishes over time, so we weren't sure what to expect. Here are the results, assuming you started 20 years ago in a 60% equity/40% bond portfolio:

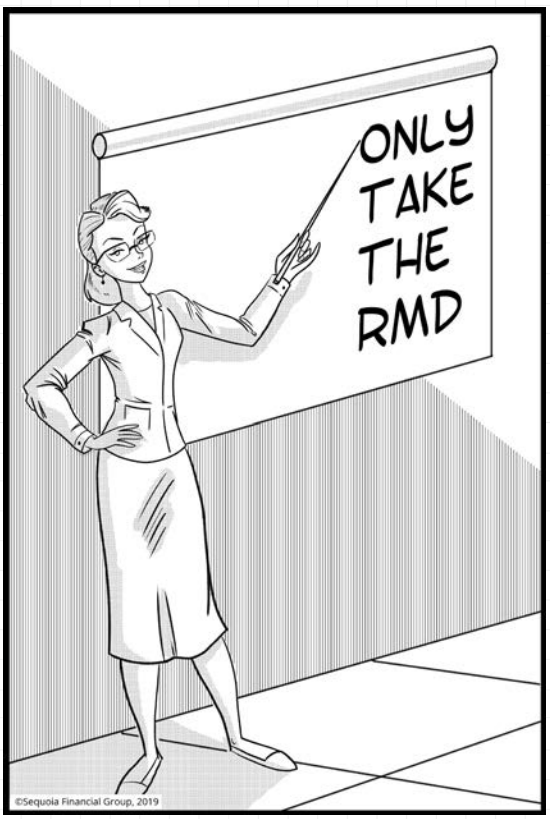
	Beginning of year Withdrawal	End of year Withdrawal	Monthly Withdrawal
Total RMDs	$1,198,872	$1,229,011	$1,210,357
Ending Balance 20 yr	$1,174,647	$1,241,559	$1,210,995
Total	**$2,373,519**	**$2,470,569**	**$2,421,352**

Conclusion? The end of year RMD withdrawal left a higher balance than the other two options. In total, using the same investments and calculations, the end of year withdrawal produced a total wealth increased by $97,051 and a balance that was $66,912 bigger. In that period, the option of making an RMD withdrawal at the end of the year produced a higher balance.

Would we always take the RMD at the end of the year? Of course not. If you need the RMD, you'd be better taking it monthly. If you had a designated use for the RMD, like an annual family vacation, or gifts to grandchildren, take it and the associated cash flow. If you had some terminal illness and death looked probable, the RMD would be better off taken before death to help the beneficiaries. Similarly, if the IRA owner were in a low tax bracket and the beneficiaries were in a higher bracket, taking the RMD and possibly bracket topping with a Roth (see Idea 10) would be something to consider.

[15] IRS Uniform Lifetime Table

Idea 23:



If you want it to last: only take the Required Minimum Distribution.

The Required Minimum Distribution (RMD) calculation is based on a joint life expectancy table of an owner and someone ten years older. The way the calculation works is that you take the previous year-end IRA balance and divide that amount by your life expectancy from the IRS table (Table III) based on your age at year-end. So the table indicates the life expectancy at age 71 is 26.5 years. If your 70½ birthday was 06/12/18 and you had an IRA balance on 12/31/17 of $500,000, your RMD would be about $18,868 ($500,000/26.5). Note that if your beneficiary was younger by more than 10 years, you would use a different table that would establish a smaller RMD (Table II). The RMD table pretty much makes it so the IRA cannot run out of money (theoretically it could if the IRA investments went to zero in a year). Taking only the RMD assures that you should always have some distributions from the IRA and the tax bite from the IRA is as small as it can be. This follows the basic idea of keeping the IRAs (and Roth IRAs for that matter) alive as long as possible.

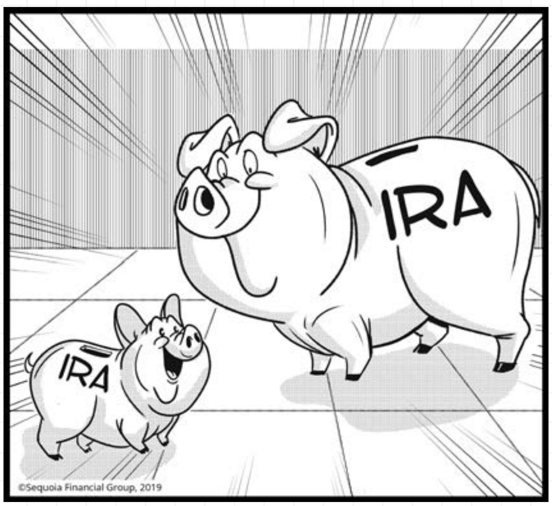
Idea 24:

Watch state tax laws on distributions and conversions.

Here's an idea a lot of folks tend to forget, especially on Roth conversions. You pay federal tax on distributions, including conversions to Roth IRAs. You also will probably pay state tax on the conversion. State income tax rates vary from the wonderful rate of zero (Alaska, Florida, Nevada, South Dakota, Washington State, Wyoming and Texas) to some pretty high rates, like 13% in California (or 15.5% if you make an early withdrawal) or 8.82% in New York, in 2018. In addition, many states have exclusions for certain part of distributions. For people who may have residences in multiple states, like Florida and New York, changing residence before significant withdrawals or conversions can make a big difference. This is particularly true in cases where a large conversion is anticipated, like for estate tax purposes.

You could work in California and then retire in Nevada, and the taxes would be quite a bit different on your retirement income.

Idea 25:



Use the Substantially Equal Periodic Payments (SEPP) exemption to avoid the 10% early withdrawal penalty.

IRAs are subject to the rule that funds must remain in the IRA until age 59½. There are a variety of exceptions to this rule, including some exceptions only appropriate for IRAs (See Idea 46 for example). One significant exception is the Substantially Equal Periodic Payment (SEPP), or §72(t) exemption. This provides that you may withdraw from an IRA at any age provided you take a series of substantially equal payments over a period associated with your life expectancy. The series of payments cannot be modified for a period of the longer of the time period in which you attain age 59½ or 5 years. So if you begin a SEPP at age 52, you must continue it to age 59½. If you begin a SEPP at age 57, you must continue it until age 62 (5 years).

There are three methods of taking the SEPP:

- You may use your life expectancy under the IRS Single Life Expectancy Table. You take the distribution similar to the calculation of an RMD: You divide the balance in the IRA by your life expectancy. Each subsequent year, subtract one year from the life expectancy. For example, if you were 53, you would take the IRA balance and divide it by 31.4. If the IRA were worth $500,000, your SEPP would be $15,924.

- You may use the life expectancy table and the §7520 rate[16] to determine an amortized distribution. If the interest rate for calculation was 2.04%, the amortization method would produce a SEPP for a $500,000 IRA on a 53-year-old owner of $21,721.

- You may also use the fixed annuitization method. For the above example, this method would produce a SEPP distribution of $21,617.

Do not modify the SEPP stream once it is calculated. Modification means increasing, decreasing, stopping or transferring into or out of the SEPP IRA. You have to leave the IRA alone for a time period of the longer of 5 years or number of years to attain age 59½.

You can get a one-time Mulligan for a SEPP calculation. Rev. Rul. 2002-62 permits a one-time change in the calculation method used[17]. Thus, if the market made a significant change in the IRA value, or your facts and circumstances changed, you could make a one-time change from whatever method you used to another more favorable calculation.

You also should know with SEPP that the calculation is done on a per-IRA basis. So if you were 53 and had a $1,000,000 IRA, but only needed about $21,721, you could split the IRA and take a SEPP on a $500,000 IRA and leave the other to grow. You can have as many SEPP calculations of separate IRAs as you want. If you start a new SEPP calculation, the rule of 5 years or age 59½ testing applies to each calculation.

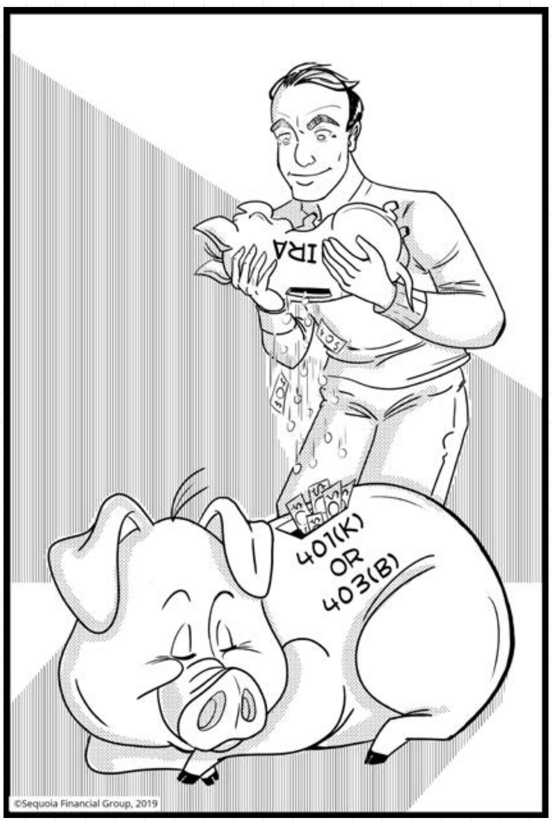
All in all, the SEPP exception is a good way to access IRA money early if you need it. But it's like the mercury lights we used to have in the gym in school way back in the 60s: once you turn it on, you have to leave it on, for the longer of 5 years or age 59½.

[16] I.R.C. §7520(a)(2)

[17] Rev. Rul. 2002-62, 2002-2 C.B. 710

Idea 26:

Use a Qualified Plan (401(k), §457(b) or 403(b)) to dodge Required Minimum Distributions.

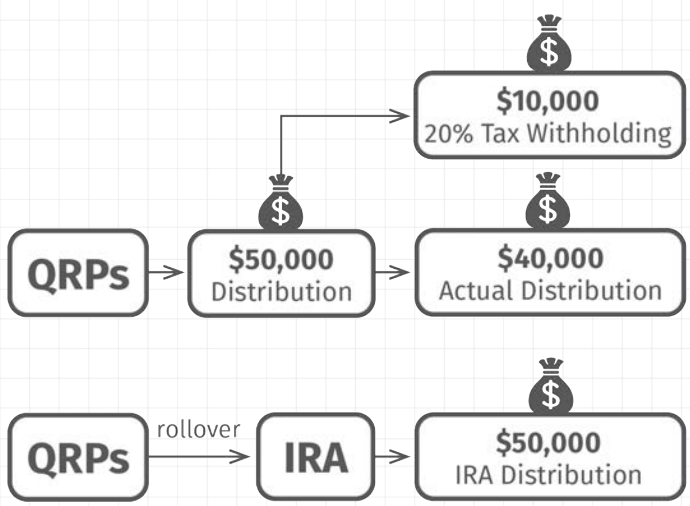


Traditional IRAs mandate Required Minimum Distributions (RMDs) to begin at age 70½. If you are over 70½ and still working at a company that you don't own 5% or more of, you can roll your Traditional IRA into a 401(k), §457(b) or 403(b). You're not required to withdraw from those plans until after you retire. Remarkably, the IRS does not define 'retirement' anywhere. Probably getting a W-2 indicates you are not retired. This tip allows us to defer RMDs.

Idea 27:

Use an IRA rollover to avoid 20% withholding on a Qualified Plan distribution.

Qualified Retirement Plans (QRPs), (like 401(k), §457(b) or 403(b) plans), must withhold 20% on any distributions. So, if you had $50,000 in the plan and wanted to take it all out, the plan is required to withhold $10,000 ($50,000 x 20%). Suppose you had significant losses, like a Net Operating Loss on a business, or very large itemized deductions, you could avoid the withholding by rolling or transferring the QRP to an IRA, then making an IRA distribution. You can elect to have no withholding on an IRA distribution.



Idea 28:

Make Roth contributions after age 70½.

A Roth IRA has a variety of advantages, notably how it works with the age 70½ rule. The most notable age 70½ rule about a Roth IRA is that it is not subject to RMDs at age 70½. The second and lesser-known 70½ rule for a Roth IRA is that, unlike a Traditional IRA, you can contribute to a Roth IRA after age 70½. This is good news for someone over 70½ who either has earned income, or is married to someone with earned income. The general Roth strategy is to load them up and you can do that post age 70½ if one person in a couple has earned income.

So if Tom is 73 and retired, married to Laurie, who's 60 and working, they can both contribute to a Roth, subject to the income limits.

Idea 29:

You can finance a new business with your IRA, but you probably shouldn't.

Many 9-to-5ers dream of being able to stop working for someone else and start their own business. Given that it has become harder to get credit these days, especially for a new small business, people will look for alternative ways to access the funds needed to a start-up. Generally, if you use IRA assets to purchase assets in a business you control, or use the funds as a guarantee on a loan on your business, it will be considered a prohibited transaction and will cause the funds used to purchase the asset to be considered a distribution and be taxable (as well as subject to a penalty if before age 59½). There are plans that have been promoted as ways to use an IRA that will ultimately own the business. This transaction is called a Rollover as Business Start-Up or ROBS transaction. A ROBS transaction is fairly complex and can lead to significant tax penalties if done incorrectly.

Let's say you have an IRA you rolled over from an old 401(k) that you have never added new contributions to. If you didn't comingle funds from any contributory IRAs, you have the ability to roll this into a new 401(k) plan. In order to do this, you would set up a C Corporation to own the new business venture and have that C corp. create a retirement plan such as a 401(k). As the owner of the company you certainly can participate in the 401(k) plan, so you roll your IRA into the new 401(k). With the funds you rolled over, you now buy the company stock in the closely held corporation you just created. The C corp. that owns your start-up business now has cash from the sale of its stock to your 401(k) and you can now use it to fund the business.

While this may seem like a good way to access the funds in an IRA or other qualified plan to use as start-up capital, there are a number of problems with a ROBS transaction. First is cost. Due to the complexity of the transaction, a number of experts will have to be engaged to make the transaction like CPAs, lawyers and advisors that specialize in ROBS funding, and administrators for the new 401(k). Each of these professionals will charge fees. In addition, a Form 5500 will have to be filed every year on the plan even if the value is less than $250,000.00[18]. The IRS is looking at ROBS transactions very carefully. While they have not yet ruled them prohibited transactions, there have been more and more scrutiny on them, which can lead to costly professional fees and even the potential of significant fines and tax liability. Lastly, even if all of that were not the case, a large number of new business ventures fail in the first few years. Is this really the most prudent investment for your retirement funds? With that conclusion, it seems like this is not a good IRA idea.

[18] This is because the exemption only applies for a plan in which the participants are the owner and/or the owner's spouse. Since a C Corporation has to be the owner of the company not an individual, the exemption for plans under $250,000.00 does not apply.

Idea 30:

Tracking your own basis.

Most of the time you do not really need to pay attention to the cost basis in an IRA. Generally you pay attention to your contributions, if you are able to deduct them, and then to the withdrawals you make which will become part of ordinary income. However, there are some very specific situations in which the basis needs to be tracked, and it will most likely fall on you to do the tracking.

When you make a non-deductible contribution to an IRA, or rollover after tax funds, the basis will come out tax-free when you withdraw those funds, otherwise you would be taxed twice on the same money. An IRS form 8606, Nondeductible IRA is used to track the basis and must be filed or there can be penalties. With a normal nondeductible IRA contribution this usually is done automatically in the year the contribution is made. The issue comes in if you have made after tax contributions to a company sponsored plan and then roll it over into an IRA when you separate service. Generally most people won't track this and once the funds are commingled in the rollover IRA it will be difficult to tell what the basis was. So if you have a nondeductible IRA or after-tax money on a plan, make sure you do your homework and take good notes. It may be tested later.

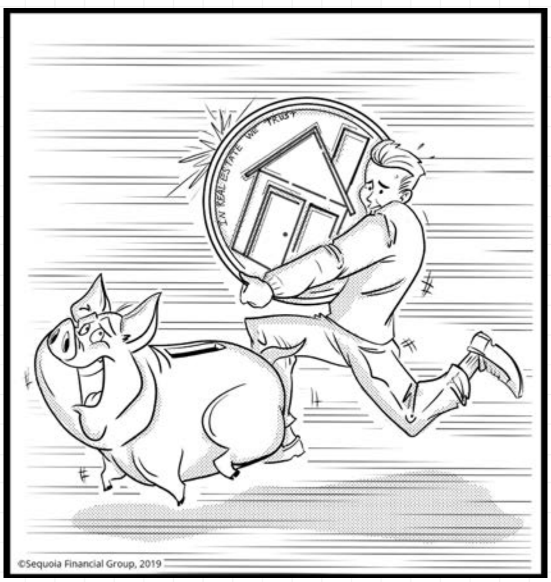
Idea 31:

Pay management fees on a Roth IRA from outside sources.

For Roth IRAs, it may make sense to pay management fees out of outside funds, just like it makes sense to pay the taxes on a Roth conversion from outside funds. Roth IRAs are tax-free and growing them as much as possible is the goal. Thus, paying fees is keeping more money in the Roth and letting that amount grow tax-free. On the other hand, regular IRAs are taxable creatures. As such, taking the management fee from the taxable money effectively makes the fee fully tax deductible. You can pay investment expenses out of your own pocket and build the IRA, but on a Traditional IRA this is no longer deductible under the Tax Cuts and Jobs Act. You are now using taxable funds to build tax deferred funds.

Here is a warning against taking this tip too far: Don't use your regular IRA to pay fees for other accounts, like taxable accounts or Roth IRAs. By doing that, you are running square into the risk of a prohibited transaction. Pay those fees from their respective taxable IRA accounts.

Idea 32:



Buy actual Real Estate in your IRA.

You can buy property such as a home, building or raw land in a self-directed IRA through IRA custodians that specialize in this market. On the surface, it makes sense that buying and selling real estate free of tax is a good idea, but the following must be considered before going forward:

- You lose many of the tax advantages of owning property. You cannot depreciate property in an IRA. So if the real estate has a building or other depreciable asset on it, you lose a tax deduction.

- Holding property long-term in an IRA does not necessarily make much sense. Any gains on property held for more than one year in an IRA are still generally treated as ordinary income when taken from the regular IRA as opposed to long term gain treatment. If you put real estate in a Roth IRA, the gain is tax-free, but long-term capital gains are still a tax advantage, being as low as 0% and as high as 20% or 23.8% if you add in potential net investment income tax.

- You and your relatives are barred from working on the property. No “sweat equity”, or risk getting hit with tax evasion and/or prohibited transactions.

- All improvements must be hired out to an unrelated party.

- All expenses, renovations or upkeep must be paid for out of the IRA.

- If you plan to rent the property out you generally must hire a manager to find tenants.

- You will expect to pay cash for the home. Getting a mortgage with an IRA is very difficult and can trigger a tax upon tax on that portion of the income attributable to the financed part of the transaction, called Unrelated Debt-Financed Income[19].
- If you have a loss, you cannot write that off. If you kept the property out of the IRA, you could.
- There are not many companies that handle these types of IRAs. The cost to start-up and to maintain the IRA can be very high.
- You or any family members cannot use the property for any personal benefits. You, your spouse or family members cannot buy the property from the IRA or sell property to the IRA. You must know and follow the Disqualified Persons Rules[20]. No family cottages in the IRAs.
- The IRA custodian must keep track of and report on deposits, withdrawals and year-end balances.

With all the rules and tax disadvantages, who should consider buying real estate in an IRA? A very experienced real estate investor who flips houses or raw land and the income earned is normally taxed as ordinary income (so think parking lots or farmland). The investor would need a large IRA (ideally a large Roth IRA) in order to pay for, and possibly upgrade and maintain the property. If using a contributory IRA, it would also make sense that the investor is currently in a high tax bracket now and expects to be in the same or lower tax bracket later. Finally, you must be very diligent in following the rules, or you will lose IRA status and there will be severe tax consequences, including the investment being treated as a distribution (if under 59½, an added 10% penalty) and the participant is subject to a 15% excise tax on the amount involved for each year, plus additional penalties accruing for each year before the IRS catches the violation.

[19] I.R.C. §514(a)

[20] I.R.C. §4975(c)(1)

Idea 33:

Retirement Saver's Credit.

The first year your child is over 18, no longer a dependent on someone else's return, or a full-time student is the year they are eligible for the "Retirement Savings Contributions Credit (Saver's Credit)". In 2019, the credit is either 50%, 20% or 10% of your retirement plan contributions (up to $2,000 per individual) depending on your adjusted gross income (reported on your Form 1040 series return). So, if you gift your child $2,000 and they contribute it to a Roth IRA, then they can get up to $1,000 back when they file their tax return. That's an automatic 50% return! This isn't just for children either, although the AGI limits are easier to meet earlier in a career. However, about 42% of American individuals make less than $32,000 a year (the limit for single filers). Pay yourself and get paid from the government for doing so. Sounds like a good IRA idea to me.

Credit Rate	Married Filing Jointly	Head of Household	All Other Filers*
50% of your contribution	AGI not more than $38,500	AGI not more than $28,875	AGI not more than $19,250
20% of your contribution	$38,501 - $41,500	$28,876 - $31,125	$19,251 - $20,750
10% of your contribution	$41,501 - $64,000	$31,126 - $48,000	$20,751 - $32,000
0% of your contribution	more than $64,000	more than $48,000	more than $32,000

*Single, married filing separately, or qualifying widow(er)

Source: https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit

Idea 34:

Worried about outliving your IRA? Enter the Qualified Longevity Annuity Contract.

The Qualified Longevity Annuity Contract (QLAC) isn't really a new type of annuity. It is simply a new tax treatment approved on July 1, 2014, by Internal Revenue Service, for types of annuities that are purchased in Traditional IRAs, 401(k)s and other approved retirement plans[21]. You put in a lump-sum up to 25% of your IRA or $125,000, whichever is less, fund in QLAC. The insurance company tells you today exactly how much fixed annuity income you will begin receiving in the future, regardless of how long you live. The QLAC is excluded from your Required Minimum Distribution (RMD) calculations, which could potentially lower your taxes. As an example, if you have a $600,000 Traditional IRA, you could fund a $125,000 QLAC (not $150,000) under the current rule. Your RMD would then be calculated on $475,000. There is no stock market or interest rate risk, therefore the principal is protected. QLACs allow you to defer as long as 15 years or to age 85. QLAC has no annual fees. The commissions to the agent are built into the product, which can be very low when compared with fully-loaded variable or indexed annuities. Cost-of-living adjustment (COLA) can be attached to increase the annuity, if the insurance carrier allows it.

[21] Treas. Reg. 1.401(a)(9)-6

Idea 35:

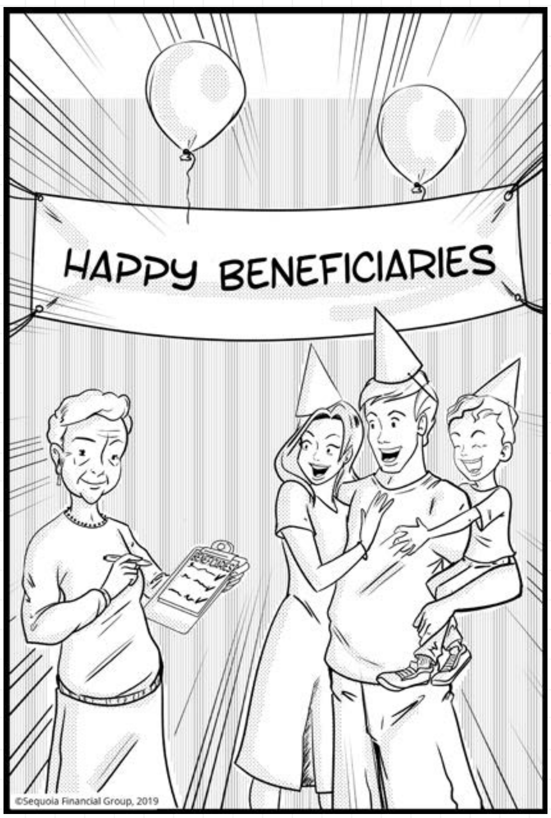
Filing a 5329 to set the statute of limitations.

IRAs are tax-favored accounts that are subject to many restrictions, which can translate to added risks in the form of tax penalties. Just to name a few: 6% penalty for excess contributions, 10% penalty for distributions prior to age 59½ (unless an exemption is applied) and a daunting 50% penalty if you failed to take a Required Minimum Distribution (RMD).

The federal income tax statute of limitations runs three years starting from the return due date or filing date, whichever is earlier. Here is the terrifying truth: If you did not file Form 5329, (Additional Taxes on Qualified Plans and Other Tax-Favored Accounts) by attaching it to Form 1040 or separately, the clock of the three-year statute of limitation in regards to an IRA penalty will not be set to start until when the error is detected. In the 2011 case of *Robert K. and Joan L. Paschall v. Commissioner*[22], the Tax Court decided the Roth conversion the Paschall's did in 2000 was improper. The transaction was deemed as an IRA taxable distribution. The three-year statute of limitation for this unreported income had expired. However, the IRS treated the conversion as an excess contribution to the Roth IRA. Since form 5329 was not filed, the statute of limitations clock wasn't set. The IRS was able to impose a 6% penalty annually on this excess contribution. Doing a conversion? File Form 5329 with your 1040.

[22] *Robert K. Paschall,* 137 T.C. 8 (2011)

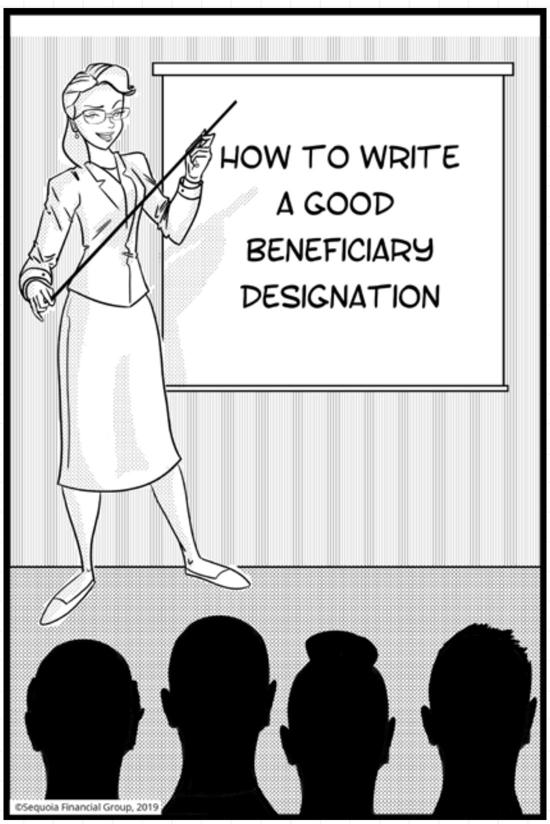
Idea 36:



Mind your beneficiaries.

You should pay attention to the financial situation of your beneficiaries. For beneficiaries in the high tax bracket, leave them the Roth IRA, since the taxes have already been paid. For beneficiaries in a low tax bracket, leave them the Traditional IRA. If you want to leave an IRA to a charity, leave the charity a Traditional IRA. Be careful if you want to leave an IRA to **both** individuals and charities, because it could cause your individual beneficiaries to lose the stretch (see Idea 44) and accelerate taxes (separate IRAs should be created in this case). You should also pay attention when leaving an IRA to a 'special needs' beneficiary. Naming the special needs individual as a beneficiary could cause them to lose government benefits. It is better to name the individual's Special Needs Trust as the beneficiary and not the individual directly. Finally, think about the individual you want to name as a beneficiary: Are they a credit risk? Is there potential for a divorce? Can they manage the IRA? In any of these instances you may want to consider an IRA Trust (see Ideas 3 and 4).

Idea 37:



How to write a good beneficiary designation.

A good beneficiary designation clearly states where your IRA will go after your death. You should name both primary and secondary beneficiaries. For married couples, the spouse is usually named as the primary beneficiary and the children as secondary or contingent beneficiaries. To name individual beneficiaries, give the complete legal name of each beneficiary. For multiple beneficiaries, you must also state the percentage of the IRA each will receive. For example, 50% to Jack Doe and 50% to Jill Doe. You can add 'per stirpes' after the name of an individual beneficiary if you want that beneficiary's children to get the share if the beneficiary you named predeceases you. If you name a revocable trust as a beneficiary, you will need to give the name of the trust and the date the trust was created. Make sure your Revocable Trust has the correct language (see idea 48). If you name an IRA trust as a beneficiary, you would use the following designation: "name of trust, date trust created, FBO name of beneficiary". Typically, the custodian of the IRA has a beneficiary designation form. If the custodian does not have a beneficiary designation form, you should give the custodian a written statement listing your beneficiaries.

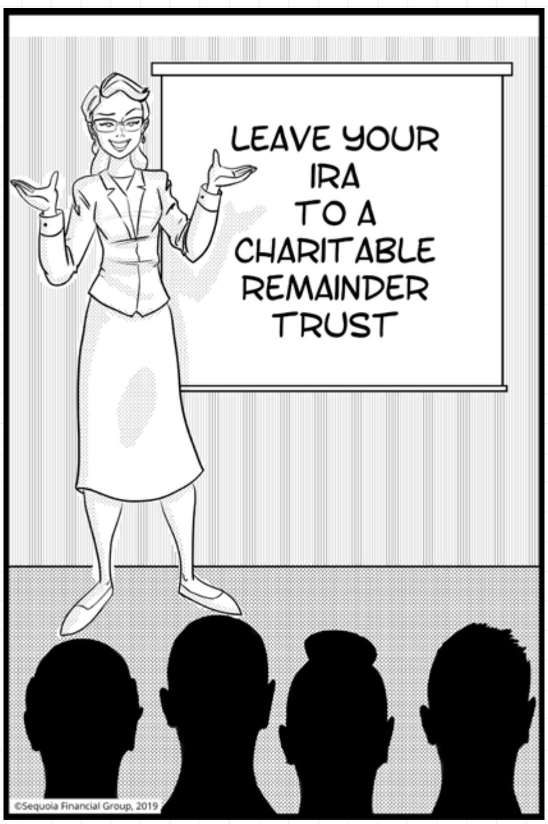
Idea 38:

Leave your Traditional IRA to charity.

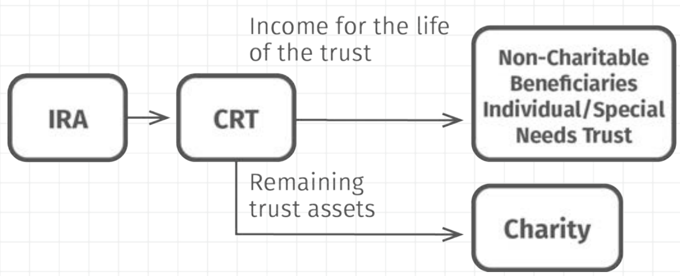
For a taxable estate (e.g., above $22M per married couple or $11M per individual in 2018), the naming of a charity as a beneficiary has a double benefit: There are no income taxes to the charity and there are no estate taxes on the gift to the charity. If you had a taxable estate (which I hope you do) and you have charitable intent, then leaving the IRA to the charity makes the most sense by a long shot. You save income taxes on the IRA and estate taxes. Obviously, a charitably minded donor would be best leaving the IRA to charity and other assets to a non-charity beneficiary. From a planning standpoint, it makes sense to segregate the portion you want to leave to a charity into a separate IRA, to not confuse the IRA beneficiaries. In other words, if you want to leave $50,000 to charity, then segregate a $50,000 IRA and name the charity the beneficiary.

Idea 39:

Leave your IRA to a Charitable Remainder Trust.



You can leave an IRA to a Charitable Remainder Trust (CRT). A CRT provides income to an income beneficiary and a remainder interest to a charity. The income from the charity can be a fixed amount, in which case it's called a Charitable Remainder Annuity Trust (CRAT)[23], or a percentage of the Trust's income, where it is called a Charitable Remainder Unitrust (CRUT)[24].



If the CRT meets the strict requirements of the tax code, it will provide an income to the beneficiary, plus an estate tax deduction to the estate for the charitable gift. This is ideal where an IRA owner wants to provide for their favorite charity and have some income for heirs, for a period of up to 20 years. This can work out in a variety of circumstances, such as where there is an older beneficiary or a special needs beneficiary. In this case, the IRA is left to the CRT with the income beneficiary as a Special Needs Trust. The Special Needs Trust allows the disabled beneficiary to receive additional benefits above any governmental benefits, which otherwise might have been reduced or lost. The CRT also works well where you have a desire to leave a specific periodic amount to a group of beneficiaries.

[23] R.C. §664(d)(1)

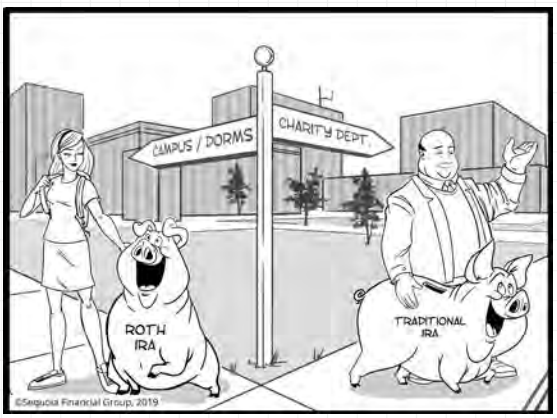
[24] I.R.C. §664(d)(2)

Idea 40:

Leave your IRA to a Charitable Gift Annuity.

A Charitable Gift Annuity provides a lifetime income to a beneficiary and the remainder to charity. The gift to the charity is deducted from the decedent's estate (based on its present value at date of death or 6 months later if using alternative date). The benefit to the charity is not subject to income taxes. This would work well where there is a taxable estate, older beneficiaries and a charitable intent.

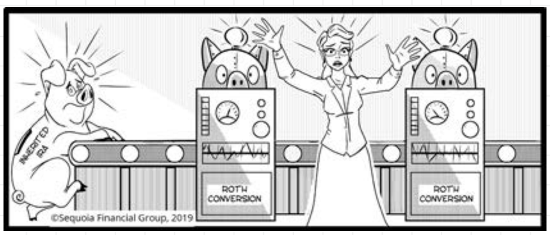
Idea 41:



Don't leave your Roth to charity.

As much as leaving a Traditional IRA to charity is a good idea, leaving your Roth to charity is not. Roth IRAs are tax-free and so are charities. You paid the tax on funds that went into the Roth, whether via conversions or contributions. Use taxable IRAs or assets with an unrealized capital gain to fund charitable gifts. Leave the Roth to humans.

Idea 42:



Don't try to convert an Inherited IRA to a Roth.

This idea is commonly asked about, and here's an easy answer: You can't convert an inherited IRA to a Roth because the law doesn't allow it[25]. So don't do it.

[25] I.R.C. §408(d)(3)(C)

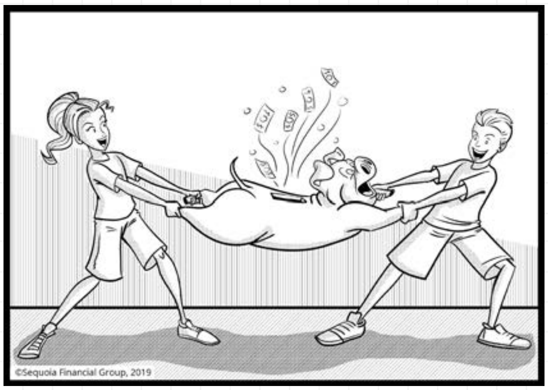
Idea 43:

Title your Inherited IRA correctly.

Inherited IRAs (as opposed to your IRA or a spousal IRA) must be titled correctly to show the IRA as being received from a decedent. Ed Slott suggests the following designation, which I agree with: "John Smith, IRA (deceased December 16th, 2018) F/B/O John Smith Jr., beneficiary". Remember that you cannot roll over an Inherited IRA to a Traditional IRA in your own name, nor can you convert it to a Roth (See Idea 42).

Idea 44:

Stretch the benefit of the Inherited IRA.



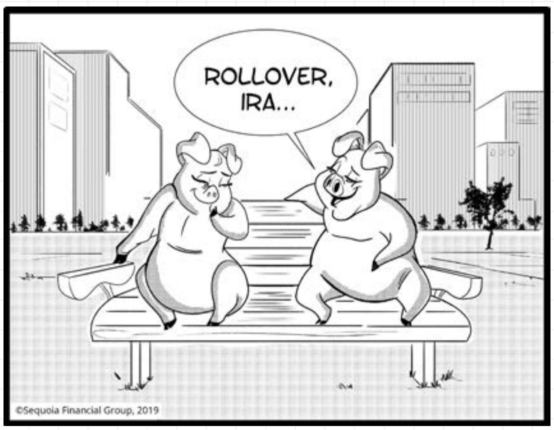
IRA beneficiary rules are complex. For non-spouse beneficiaries, a preferred method, tax-wise, is to 'stretch' the payout over the life expectancy of the beneficiary. This is done through separate accounts for each beneficiary, created by September 30^{th} of the year following the IRA owner's death. It's important that an IRA bequest by that date be as percentages, not as dollars, and all to individuals. So it would be fine to leave an IRA to Huey, Dewey and Louie in equal shares (33 1/3%). It would not be fine to leave Huey $50,000 and Dewey and Louie 50% of the remainder. In that case, paying Huey before the September 30^{th} beginning date would be preferable. Likewise, if a charity was a partial beneficiary of an IRA (See Ideas 38-40), paying the charity earlier or using a separate IRA for the charity makes sense. In a 'stretch', we also want to name an alternate beneficiary to receive the Required Minimum Distributions (RMDs) the beneficiary would have taken.

Our basic 'stretch' rules for multiple beneficiaries:

- Name **individuals** as beneficiaries of the particular IRA you want to stretch.
- Establish a separate Inherited IRA account for each of the separate beneficiaries by September 30^{th} and begin taking RMDs by December 31^{st} of the year following the owner's death.
- Name a contingent beneficiary on the Inherited IRA.

Note in early 2019, the House and Senate introduced bipartisan bills to curtail the time period of 'stretch' IRAs.

Idea 45:

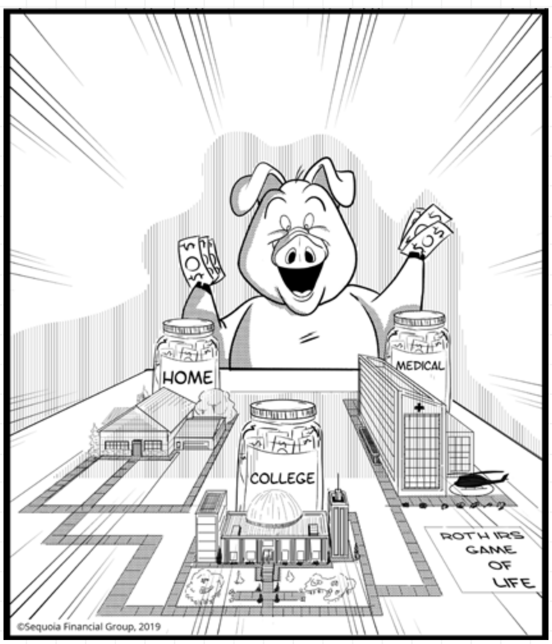


Asset protection tip, don’t commingle rollovers and Traditional IRAs.

According to federal bankruptcy law, Rollover IRAs have unlimited protections, while Contributory IRAs only have $1,283,025 (last updated in 2016) of protection[26]. If you have both, it’s probably not a good idea to commingle them.

[26] The Bankruptcy Code, 11 U.S.C. §522

Idea 46:



Use an IRA to get special withdrawal treatments if under 59½.

There are some special exemptions to the early withdrawal penalty that are only applicable to IRAs. These include:

- Health insurance premiums for the unemployed[27].
- Qualified higher education expenses[28].
- Qualified first-time homebuyer expenses[29].

You can use this for a younger person to buy a house (I did this with my daughter's IRA). You could also roll some money out of a qualified plan into an IRA and use the exceptions. So a younger person might roll over from their Qualified Plan to take advantage of the first-time homebuyer exception. If the person is currently employed, the plan will have to allow for in-service withdrawals. If the person has separated service from the company but the money is still in the plan, he/she could directly transfer the money to an IRA to take advantage of the above exceptions.

[27] I.R.C.§72(t)(2)(D)

[28] I.R.C.§72(t)(2)(E)

[29] I.R.C.§72(t)(2)(F)

Idea 47:

Roll over a Designated Roth Account to a Roth IRA.

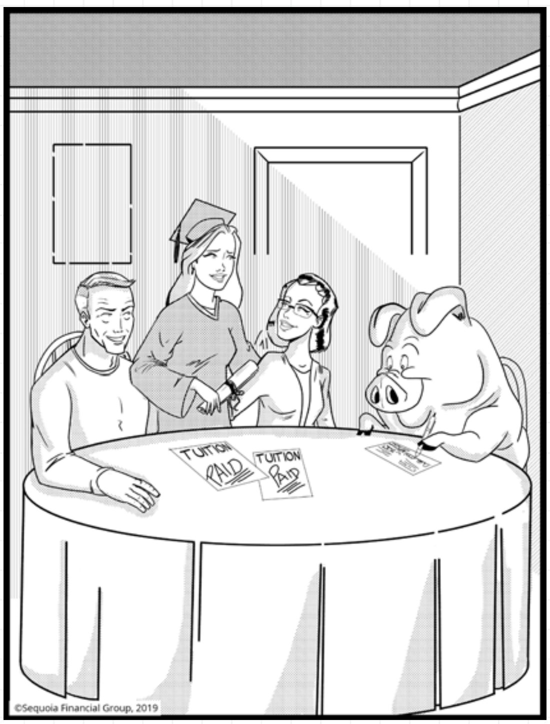
401(k), §457(b) and 403(b) plans can offer Designated Roth Accounts (DRACs). These accounts can allow a significant building of tax-free money, much larger than a Contributory Roth, since the DRAC has the same limits as a conventional 401(k), §457(b) or 403(b) plan. However, DRACs, for some perplexing reason, are subject to the Required Minimum Distribution (RMD) rules, whereas Roth IRAs are not. Accordingly, when you retire from a 401(k), §457(b) or 403(b) plan with a DRAC, roll the DRAC into a Roth IRA so you have no RMD. Be careful if you intend to take the money out of the Roth soon after the rollover: Both DRACs and Roth IRAs have a 5-year holding period for a qualified distribution. If you are close to the 5-year period but not over it, it may be better to wait.

Idea 48:

If you name a trust as a beneficiary, make sure it has a pass-through provision.

Naming your Revocable Living Trust (not an IRA Trust, see Idea 4) as an IRA beneficiary, will allow tax-deferred growth for your individual beneficiaries if the trust has the correct pass-through language. If your trust does have the correct language, the IRA will flow through the trust and will then be divided into separate Inherited IRAs, one for each individual beneficiary you named in your trust. The age used to calculate the Required Minimum Distributions (RMD) for all of your beneficiaries will be the age of your oldest beneficiary. If you have already named your revocable trust as the beneficiary, you should check with either the attorney who drafted the trust or another estate planning attorney to make sure that the trust has been properly drafted to be named as the beneficiary of your IRA.

Idea 49:



Use your Roth IRA as a college education savings tool.

Many people do not have the financial resources to save enough for retirement and college for their children. Often, people will add to college accounts and neglect their retirement savings. While it is noble to think of your children before yourself, you can actually do both at the same time. You can add $6,000 per year (or $7,000 if 50 years old or more) to a Roth and another $6,000 per year (or $7,000) for your spouse, assuming you qualify under the income rules. Let's say you save the max for you and your spouse for 18 years, while under 50 years old, you would have $216,000 just in principal! That does not take into account that the amount you can contribute increases depending on the rate of inflation.

While a Roth IRA was meant for retirement by law, it has rules that make it a useful tool for college savings. First, with a Roth IRA you are able to take the principal out at any time with no penalty or tax! For qualified education expenses, you can take the principal out penalty and tax free, but the earnings are taxed as ordinary income. If your child does not go to college, gets a scholarship, joins the military or you are having financial hard times, you can access those funds for other reasons and possibly get financial aid for your children. There is a lot of flexibility. When you have limited resources, flexibility is important and provides some safety net for the family.

Another benefit of contributing to a Roth as opposed to a §529 plan is the rule to decide eligibility for financial aid. Assets in an IRA or Roth IRA do not count towards calculating financial aid. Only when money is withdrawn from an IRA is it counted as the parents' income and against financial aid. Money in a §529 plan is counted against the financial aid calculation, although at a favorable rate, depending on whether the parent or grandparent owns the account. Money in an UGMA/UTMA counts as the student's asset. How these assets are counted has changed many times and probably will change again, but I would bet that retirement assets in the future will still count more favorably than education savings.

The moral of the story is that a Roth IRA gives you flexibility. Here is another example: Let's say your children are just about to start college and you have paid off all your debts and you now have ample income to pay for college! Why even touch the Roth? Now instead of having a bunch of money in a §529 plan that will have to be taken out, you have a huge IRA that you can use for retirement while keeping the favorable tax status.

Idea 50:

Use the Roth IRA as an emergency fund account.

Most young people just starting out in their career have little savings and are not thinking of retirement. The idea of putting money into an account and not seeing it for 30-40 years is unthinkable. One of the first priorities in financial planning is having an emergency fund that you can access quickly. Most people think a bank account is the only option, but banks are not paying much interest right now. A Roth IRA is viewed as an account that cannot be accessed quickly, but that has changed. You can set up an electronic link from your Roth directly to your bank account and have those funds available in 1-2 business days (potentially 4 business days if you have to sell individual equities or ETFs which have a 2 day settle). The principal is always available tax and penalty free, up to your contributions.

The reason a Roth IRA makes sense is that an emergency fund is not always used. If you add to the Roth over several years and find your income has grown, then you can add to an emergency fund at the bank with any extra income. Now you have several years of Roth IRA contributions AND an emergency fund. You have also gained a lot of flexibility in the process.

Conclusion

IRAs, both Traditional and Roth IRAs, are wonderful planning tools. They can allow tax savings, beneficiary protection and even the creation of a family dynasty. We thought the attached 50 ideas would be helpful to you, whether you are an IRA owner, a beneficiary of an IRA, or a professional advisor. At Sequoia Financial Group, we like to take a big picture view: We look at the whole picture of how the IRA integrates with the tax plan and the estate plan, and how the investments in the IRA correspond to the outside investments. If you would like information on managing an IRA, the tax planning aspects of IRAs or the estate planning consequences of IRAs, or if you'd like to experience a fiduciary, fee-only advisor, please feel free to contact us. We'll try to answer any questions you may have. Also, check out our other Financial Literacy tools.

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Sequoia Financial Group Creed

In our opinion...

1. **Capitalism works.**
   Most people want better lives for themselves and the next generations. Because of that, they will work hard, invent new stuff, and come up with ways to improve their lives and the lives of others.
2. **Abundance, not scarcity.**
   Capitalism can and does create abundance. When something new is created (like cellphones), someone wins (the cellphone manufacturer and the users) and someone loses (landline manufacturers). But most developments, because they are designed to make our lives better, provide more than they take away. Cars put buggy-whip manufactures out of business, but created vastly more opportunities.
3. **Anybody can participate in capitalism.**
   You only have to own one share of Apple to share in Apple's success. Alternatively, you can buy one share of an index fund and participate in 500 companies' success.
4. **The world is vast.**
   The United States is the greatest country in the world, warts and all. However, there are 22 times more people who live outside of the US. They buy cars, cellphones, food, gas and soap. By investing globally, we can share in global capitalism.
5. **Large company stocks are big for a reason.**
   These companies' stocks grew by doing something right (but it doesn't mean that they still do it right today). That's why our portfolios can include large stocks. It's like NFL players: they made it to the NFL for a reason.
6. **Small company stocks have the potential to be the next Apple.**
   Large company stocks were small at one time. A good opportunity for growth could be in small company stocks. However, small stocks tend to have more risk. So small stocks are like promising high school football players, midcap stocks are like promising college football players. If you want to have a football team for generations, you need some of all of them.
7. **Don't put all your eggs in one basket.**
   Diversify. This is simple. There is some company out there right now that has the next big thing. To give you an idea, in 1955, there were 77,188 new patent applications at the USPO, while in 2015, there were 589,410. Which company has the next big thing? We don't know. But if you own a variety of companies' stocks, you enhance the chance of owning the next winner and you won't just own the duds.
8. **Infinity and hell's basement.**
   This is the "heads I win, tails I lose" fallacy. In reality, the full downside of an investment is losing 100% of your contribution while the upside can be unlimited (> 100%). For example, Berkshire Hathaway went public on 03/17/80 at $290 a share (if you were in the know, you got in back in 1957 for about $7). On March 16, 2018, it was $306,710 per share. That's about a 105,862% rate of return. GM, Kmart, Enron all define 'hell's basement': meaning they went down 100%. If the majority of holdings are successful, the portfolio can produce good results. See #7
9. **Fees Matter.**
   We believe equity returns and fixed-income returns tend to migrate to an average over time, and that the costs to provide such returns can be a direct drag on performance. Sometimes paying a mutual fund company, broker, bank or advisor can reduce your rate of return. We take into consideration the costs of the manager and funds when selecting an ingredient in a portfolio. When we make a selection, we work to ensure that the fee is worth the value it will add.
10. **Season to taste.**
    The last point of the Creed is that you need to stay balanced. Investing is like riding a bicycle, you need to keep your balance to move forward. We reset the allocation periodically to reduce risk and create opportunity for return. Sometimes rebalancing increases return and sometimes reduces risk. In either case, we believe it keeps us on track.

SEQUOIA FINANCIAL GROUP

In life there are things we can change and things we cannot change. We just need to have the knowledge to know the difference.

Our concept of Reducing Uncertainty™ embraces that idea: We cannot change market fluctuations, taxes and mortality. While we cannot change these things, we can manage how we react to them. For example, we can convert to a Roth IRA to reduce taxes. We can use proper beneficiary designations to give our heirs the most from our IRAs. We can also use multiple Roth conversions to gain opportunity during market fluctuations.

50 Good IRA Ideas is intended to take some of our best ideas on IRAs, Roth IRAs and qualified plans and make them useful for you. Of course, IRAs are only part of an integrated plan, which includes taxable investments, financial planning, estate planning and tax plannng. But the IRA (especially the Roth) is a very powerful tool to reduce the uncertainty in our financial lives and aid in maximizing family wealth.

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$14.95
ISBN 978-1-4951-7306-6
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