

Summer Newsletter

August 2010

What We've Been Up To...

Thanksgiving Point Half Marathon

In April, we teamed up with Thanksgiving Point as a race organizer and sponsor to start a half marathon. Through this event, we were pleased to present a check for \$34,000 to benefit their upcoming Museum of Natural Curiosity. Spread the word and come join us (run, volunteer, sponsor or cheer) next April!



LaVell Edwards Golf Tournament

We were proud to support the Boys and Girls Club of Utah County in their annual golf tournament this year. Unfortunately, nobody won the Harley Davidson we were giving away for a hole-in-one at our hole. Maybe next year!



Triad Advisors' Alternative Investments Conference

LJCooper continues to be involved in the industry by serving on panels, speaking and conferences and always looking for new ways to improve your investment performance. Here is Craig (far right) at the Triad Advisors' 2010 Alternative Investments Conference.



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Retirement Account Mishaps That Cost Big

By Craig M. Porter-Rollins, RFC® CEO LJCooper

1. Doubling down on tax deferral.
2. Making missteps with inherited IRA.
3. Having rollover regrets.
4. Withdrawing too much money.
5. Messing up required minimum distributions.
6. Blindly relying on target date funds.
7. Letting old accounts languish

Source: Sheyna Steiner, Bankrate.com

It seems every day there are more and more financial issues to be concerned about. As an advisor working with our client's accounts on a daily basis, it is our job to help educate our clients on some of the pitfalls contained in the above list of retirement account mishaps. This discussion may come as a refresher for many of our clients, but it still deserves a thorough going over.

1 Doubling down on tax deferral

This refers to placing a tax deferred investment like a variable annuity into a tax deferred retirement plan such as a 401k or IRA. When the



underlying investment already has a tax deferred benefit, wrapping another tax-deferred vehicle around it is redundant.

There are legitimate reasons for placing an already tax-deferred product in a tax-deferred retirement plan:

1. The guaranteed income that can be provided through the use of a variable annuity.
2. The retirement account is the only source of diversifiable funds and the client needs a better chance of sustainable income.

Typically, we recommend annuity products for older clients that are either in retirement or very near retirement and income is a much higher priority and the fees are deemed reasonable by both the client and their advisor. We do not feel that variable annuities would be appropriate for a younger client that had 15 or more years to retirement, unless there were a financial circumstance that made the time frame to the client reaching 59 ½ years a moot point. Annuities carry a penalty for early access prior to 59 ½ years of age.

2 Making missteps with inherited IRAs

As wonderful as it sounds to inherit an IRA from a parent or spouse, you must remember 3 very important items: taxes, taxes and taxes. Unfortunately, with the windfall of an inherited IRA comes the potential downside of properly transferring the use of that IRA to the heir and the taxes that will inevitably be owed beginning the year in which the proceeds are paid out to the heir. Noticed that I said “transfer the use” and not “transfer the IRA to your name.” Rules of inherited IRAs are very specific, when you receive an inherited IRA it must be registered as such. ▶



As the beneficiary you can receive the proceeds based on a pre-defined schedule calculated by inherited IRA tables. These minimum distributions will be made over your lifetime. Should the IRA be transferred directly into your name the tax consequences are expensive. In some cases the liquidation of an IRA or retirement account can exceed 90% if estate and income limits are reached.

If you have the possibility of inheriting a retirement account, please let us know so that we can help you make that transition as easily and inexpensively as possible.

3 | Rollover mistakes

Moving funds from a 401k to a rollover IRA account must take place within a specific timeframe. Sixty days! If you miss the 60 day window you will pay taxes. You will also pay penalties if you are not 59 ½ years of age.

Where possible, we try to have the funds from an old 401k or IRA sent directly to the new account custodian. This avoids any issue of the 60 day rule. If your former retirement account does send the proceeds directly to you, get them to us immediately. There are a few custodians (like Fidelity) that will commonly send the proceeds to the client as opposed to forwarding them to a new custodian. Just remember you only have 60 days and you'll be fine.

Account holders are allowed one 60 day rollover per year.

4 | Withdrawing too much money

Withdrawing too much money is one of the issues we as advisors deal with on a regular basis. There are rules that govern when you can start taking funds from retirement accounts. The earliest that funds can be taken without penalty is 59 ½ years of age. The only exception is a systematic withdrawal option called a 72q for annuities, or 72t for qualified plans like IRAs. This rule allows a person under the



age of 59 ½ to begin taking income from a retirement plan without penalty (taxes will still be an issue). Once this option is taken there is no undoing it. Also, as it is an age-determined payout, the younger you are, the smaller the amount paid out each year.

The other important rule to consider is the 70 ½ age limit. At 70 ½, the IRS will require that you start taking required minimum distributions from your qualified accounts. Currently, the Roth IRA has no such requirement. Depending on your income needs and standard of living costs, you may want to consider either spending from qualified accounts prior to reaching 70 ½ or if your current taxable income is low enough, possibly converting your existing IRA funds to a Roth IRA.

The other concern is taking unexpected lump sum distributions from retirement assets that can cause irreparable damage to current and future income needs. One of the programs that our clients can take advantage of is our retirement income projection analysis.

If you have concerns about your current or future level of income or how it might be impacted by living costs and/or future taxes, come in and let us run a few scenarios to help you better plan for future needs.

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5 | Messing up Required Minimum Distributions (RMDs)

Messing up required minimum distributions can be an expensive mistake. The most common missteps that occur are in the first year you reach 70 ½ and not taking the RMD every year after reaching 70 ½.

The year you turn 70 ½ you have the option of deferring that first RMD to the first April the year following attaining 70 ½ years of age. The downside occurs when you realize that you now must take two ►



RMDs in that calendar year. If you are hovering near a higher tax bracket this could add unintended tax consequences. Nonetheless, you will have two taxable distributions in that year.

The most costly RMD mistake is not taking the distribution in any year after they are required. This mistake will cost you a 50% penalty of the amount you are required to take. If your RMD is \$10,000 for the current tax year your penalty would be \$5,000. Again these mistakes can be easily avoided with advanced and proper planning.

Roth IRAs currently have no required minimum distributions.

6 | Blindly relying on target date funds

You may have seen target date funds in 401k plans or advertised through various media outlets like T.V. or magazines. Target date funds are designed to meet the needs of the investor based on a

“In reality, you have no control over how [target date funds] are invested in the fund.”

predetermined time frame. The longer you have until needing the funds, the more aggressively the fund will invest. For instance if you plan on retiring in 20 years, you would want to invest in the 2030 fund, or if you have 5 years until retirement, you would want to choose the 2015 fund.

In theory, these funds should invest based on the timeline stated. The farther away you are until you need the fund's proceeds, the higher likelihood your target date fund will be invested in stocks versus bonds. The shorter the time frame until needed, the more likely the fund will invest in lower risk assets. Typically, the lower the risk, the lower the return, the higher the risk, the higher the return, as based on standard risk/reward models.



In reality, you have no control over how the funds are invested in the fund. The investment policy is set by the fund management company. In the recent downturn, many of these target date funds were found to be overly aggressively invested. In other words, they took on too much risk based on the target date stated.

We have always held to the concept of well diversified portfolios with the proper balance to meet each client's needs and time frames. By utilizing the funds available through DFA, we have the ability to build portfolios that are well defined as to their holdings, thus allowing us to plan for specific dates as deemed important to you the investor.

7 Letting old accounts languish

Within the last few years, there have been a number of articles and two well-known news broadcasts, one by Bloomberg Financial and the other by 60 Minutes, that went into great detail on the high costs associated with many 401k programs. Though this alone should be a reason to move an old 401k program to your own IRA, another well documented reason is more control over the investment options in your own IRA versus a former employer's 401k plan.

In addition to these reasons, you may need to consider the strength of the company you left. What happens if the company merges with another or goes out of business? Will that make it more difficult to get to your retirement assets? There are some documented cases where assets have been frozen for a period of time in the case of mergers.

Instead of waiting to see what may or may not happen, consider moving your old 401k into an IRA account that you have more control over and better access to. ■





What our website has to offer...

- Coming soon: find more information on our **NEW 401k plan services!**
- Access to your Schwab account (for more information how to do this, call us and talk to Cindy 801.221.2939)
- 2010 client survey results — see how we performed during a recession!
- Articles we've written in the past, covering topics such as:
 - How to prepare for long term care
 - Retirement preparation
 - Informed investing
 - Real estate diversification
 - Organizing your financial records
- Keep up-to-date with our press releases, recognitions, awards, etc.

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