IRA UPDATE: MARCH 2012

QLAC (Qualified Longevity Annuity Contracts)

IRS has released proposed regulations to create Qualified Longevity Annuity Contracts which would allow retirement account owners to purchase certain annuity contracts using retirement account funds that would be excluded from RMDs (Required Minimum Distributions).

These QLACs would be products that would not begin to pay out until the account owner is age 85 which presents the obvious issue; what about RMDs at age 70 ½ for these contracts? Normally when an IRA owner reaches age 70 ½ they must take distributions based upon their life expectancy factor and the account balance as of 12/31 of the prior year. Since these contracts would not pay out until age 85, the RMD rules must contain a provision addressing the issue.

There will be many limitations such as total purchase amount which appears to be $100,000 per person or up to 25% of retirement assets and they will not be variable or equity index products.

These QLACs do not exist and the above mentioned proposed rules are likely to change which is why I will not go into much detail here until these changes are enacted and the rules are more clear.

Mitt Romney's Mega IRA

There has been some speculation regarding the value of Mitt Romney's IRA which is somewhere between $20-100 Million. How doesn't one get an IRA so large? We'll it's not from regular contributions that's for sure. While Romney may have maxed out his IRA contributions, it is much more likely the funds came from a 401k plan while at Bain Capital via a rollover to the IRA. Further, when you are a guy like Mitt Romney, you have the ability to invest in very risky ventures such as those that occurred while Romney was at the helm of Bain Capital.

So his IRA has clearly benefited from substantial returns most likely from private deals that are difficult to value hence the speculation in the account size. Interestingly enough, it may have been a bad move by Romney to make such investments in his IRA because all of that growth has to come out at regular income tax rates either for himself and/or his beneficiaries whereas those investments may have enjoyed (his lower) capital gains rates if held outside an IRA. I think it is important to consider however that he had those types of funds available and chose to invest them and made a whole big ton of money doing so. Would it have been better for him to take the funds out of the IRA, pay the tax, and then make his investments? His investments may have been very active and thus the tax deferral of the IRA protected him from the tax ramifications of the activity.

This also raises a question on whether Mitt Romney would benefit from a Roth conversion. He could convert his IRA at the maximum current rate of 35% which would reduce his taxable assets, and increasing his tax-free assets. Given that it appears Romney only pays an effective tax rate of about 15%, this might not be a good deal for him. However when

Required Minimum Distributions begin for him, there's not much he can do other than charitable donations to reduce the impact of taxable retirement distributions.

Quite an interesting case.

These as other IRA issues can be complex, so you should always seek to work with a financial advisor you know is well educated in particular with IRA rules such as an Ed Slott Master Elite IRA Advisor.

Sincerely,

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