



## IRA UPDATE: JULY 2012

### Gold in an IRA

Gold has been a popular investment for the past few years. It is important to understand the rules associated with holding such an investment in an IRA. The following is a summary of a few important points to consider before investing in gold in an IRA.

- Generally an IRA cannot invest in collectibles such as metals and coins however there are a few exceptions such as certain US minted coins, and gold bullion that would be suitable for regulated futures contracts.
- IRA gold cannot be held at home or in a personal safe; it must be purchased by the IRA and held with a qualified custodian or trustee. Not all typical custodians will do this; you may have to find a custodian that specializes.
- If gold bars or coins are distributed from the IRA, the 60 day rollover rules apply which also means that the same type of property that was distributed must be rolled over. So if gold comes out of an IRA, you cannot rollover cash; the gold must go to the other IRA.
- Investing in gold stocks or precious metals funds may provide a suitable alternative to investing in physical gold without the hassles associated with investing gold in an IRA.
- Gold ETF's, those that invest and hold in physical gold are designed to match returns on physical gold.
- Normally long-term capital gains rates would be a maximum rate of 15% under current rules however long-term capital gains on ETFs investing in precious metals are taxed at a maximum rate of 28% on collectibles. When held in an IRA, these capital gains are not only deferred, but the proceeds are taxed at the IRA owner's ordinary income tax rate which may be lower than the 28% tax on collectibles thus making a good tax planning tool as opposed to holding in a non-IRA account.
- Even though these precious metals ETFs are taxed as collectibles, and we know that you cannot invest collectibles in your IRA, the IRS has ruled on a few Private Letter Rulings that such an ETF will not be considered a collectible under the tax code and thus can be held in an IRA.

### Converting a Retirement Account to Tax-Free Life Insurance

- Use traditional IRA money to buy life insurance which will be inherited income tax free to the beneficiaries as well as estate tax free if structured properly in an Irrevocable Life Insurance Trust (ILIT).
- Distributions used to purchase the life insurance are paid over several years, if not decades which reduces the tax on the distributions compared to large conversions in one year.
- Cash value buildup in the life insurance policy can be used to supplement retirement income however caution should be used here as taking too much cash value out of a policy can affect performance and viability. Use of cash value would be limited or unavailable if structured using an ILIT.
- If funded properly, excess cash value could be borrowed from the policy tax free to pay the tax on the distributions used to pay the insurance premium and paid back at a later date thus creating more tax efficiency.

- For this strategy to work:
  - The IRA owner should be older than 59 ½ and eligible to take distributions (or age 55 exception for plans mentioned last month) otherwise the 10% early distribution penalty will apply.
  - Client will need to be in relatively good health otherwise the premiums may be prohibitively expensive.
- Beware of putting in too much cash into the policy as this can result in the policy being treated as a Modified Endowment Contract (MEC) which loses many of the tax benefits of cash value life insurance.
- Determine how much you are willing to take from the IRA and then figure out the least amount of life insurance that can be purchased without the policy becoming a MEC. Purchasing the least amount of coverage results in faster cash value accumulation.
- Various policy types may be appropriate depending upon the type of guarantees preferred. Examples can include Whole Life, Guaranteed Universal Life, Indexed Universal Life, etc.
- If a death occurs sooner than expected, then the IRA is still intact and the beneficiary will have the life insurance proceeds as well.

If you are considering Gold or any other alternative investments in your IRA or are thinking about using life insurance to leverage your estate, give me a call and we'll discuss your situation.

Sincerely,

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