

**SPECIAL SECTION:
IRA/STRETCH
STRATEGIES**

The exploding \$16 trillion IRA market

**HOW THE RIGHT TOOLS AND TRAIN-
ING IN IRA DISTRIBUTION CAN PUT
YOU IN POSITION TO DOMINATE A
VERY RIPE STRETCH MARKET »**

By David F. Royer

SPECIAL SECTION: IRA/STRETCH STRATEGIES

Stretching distributions from qualified and non-qualified retirement plans is a hot topic among financial advisors, marketing organizations and insurance companies, as the amount of qualified money in IRAs, 401(k)s and all other qualified accounts has grown to astounding levels.

According to the Investment Company Institute's "2007 Investment Company Fact Book," the total amount of qualified money in America totaled \$16.4 trillion at the end of 2006. That represents an increase of approximately 12 percent in just one year.

So where is all of this money? ICI's "2006 Investment Company Fact Book" points out that 83 percent is in mutual funds and securities, 7 percent is in banks and thrifts, and a mere 9 percent is held by insurance companies. This creates a tremendous opportunity for annuity sales, and some insurance companies and marketing organizations are preparing to get their fair share of the IRA distribution market.

LIMRA, in Research Briefing No. 8, Sept. 2005, "Retirement Distribution Sales Force Training," spelled out the opportunities and challenges facing companies and producers who want to tap into this gigantic market. The first of 78 million baby boomers began turning 59½ in 2005, and they now can make withdrawals from their qualified retirement accounts without penalties.

However, 85 percent of boomers nearing retirement have no formal plans to transform their retirement savings into a steady stream of retirement income. Although annuity insurers are developing strategies for the distribution market, many advisors are failing to go beyond their familiar

accumulation strategies and are not developing expertise in the distribution market. In addition, there are approximately 4,000 retirees turning 70½ every day; they must begin taking required minimum distributions from their retirement accounts and, like the boomers, have no formal plans for distribution.

What is the solution? For many of those nearing retirement, the best approach may be the stretch or multigenerational IRA. New, simplified IRA distribution rules went into effect in 2002. The stretch concept is simple and can generate multiple lifetime streams of income for IRA owners and their beneficiaries (spouse, children and grandchildren). In simple terms, a typical family with two children and two grandchildren can stretch the IRA distributions over three generations. Spreading the distributions allows them to continue to earn interest on money that otherwise would have been paid to the IRS. At just a 5 percent rate of return, a \$300,000 IRA can pay out more than \$1.5 million to the IRA owner and his beneficiaries.

This is all possible because of two important changes in the IRA distribution rules that took effect in 2002.

1. The RMD beginning at age 70½ was reduced by almost 50 percent. If less money is withdrawn from the IRA, there will be more left in the account for the children and grandchildren after the death of the owner and spouse.

2. The children and grandchildren who are likely to be the beneficiaries now can spread their inheritance over their life expectancies. They no longer must pay the tax in one to five years. Advisors who are trained in this distri-

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bution strategy will easily capture and retain large IRA accounts.

Some insurance companies have developed the tools you will need to dominate the stretch market. The tools include illustration software, stretch training and stretch beneficiary forms that take the concept from theory to reality. Some companies specialize in the stretch market and have developed stretch software that will extend qualified money, non-qualified money and Roth IRAs. These companies also tend to have the most comprehensive IRA beneficiary forms in the industry. These tools, combined with proper training, can help any advisor take his practice to the next level.

The opportunity for annuity producers in the qualified plan distribution market is exploding. Many IRA owners have millions in their accounts and badly need the advice of qualified plan distribution specialists.

Remember that approximately 83 percent of the more than \$13 trillion of qualified money has some investment risk in the market. Many of your prospects who are currently receiving distributions or who are approaching the distribution phase may not want to risk their life savings and future income to market fluctuations. They may want to guarantee those income streams for multiple generations. Keep in mind that you cannot have a guaranteed income from a non-guaranteed account. Annuities, for many of your clients, will be the ideal solution.

Prospects who don't need or want to take distributions from their IRAs can take advantage of the Roth conversion.



Converting to a Roth IRA eliminates the required distributions for the owner and spouse and, depending on the amount of taxes paid on conversion to the Roth, allows more money to compound and be passed on to the next generation. Not only may more money be inherited by the beneficiaries, but the future growth and qualified distributions will be income tax free. This allows IRA owners who convert to Roth IRAs to pay a small tax now and eliminate the tax on the distribution. It's like paying tax on the seed and saving the tax on the crop.

Under the current rules, prospects who have combined incomes of over \$100,000 or a filing status of married-filing separately cannot take advantage of the Roth conversion. Beginning in 2010 under HR 4297, the Tax Increase Prevention and Reconciliation Act of 2005, even those high-net-worth and high-income prospects who do have earnings over \$100,000 will be eligible to convert. In addition, they will be able to spread the tax on the conversion over two years. For example, if they convert in 2010, they can pay half the tax in 2011 and the other half in 2012. Older IRA owners and those who die prematurely may not have enough time to recoup the tax paid on



the conversion, but for many the Roth conversion will greatly enhance the benefits paid to their beneficiaries. This will create new and powerful sales opportunities for advisors that are trained in the distribution rules.

The exploding IRA market is one of the biggest financial events in the history of the financial services industry and a perfect opportunity for annuity producers to take their practice to the next level. If you want to get your share of the IRA market, you will need to do two things: Get the training that is available, and find an annuity provider that understands the market and offers the tools you need to help your clients take advantage of the new IRA distribution rules. 📌

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