Why are Insurance Companies Ideal Custodians for IRA Distributions?

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Since 2001 we've all heard lots of talk but have seen very little action regarding the new IRA distribution rules that created the Stretch or Multi-Generational IRA. In 2002 the new rules created a new and powerful financial planning opportunity that can turn a modest IRA into a lifetime of income for IRA owners, spouses, children and grandchildren. With just a 5% rate of return a $200,000 IRA can generate as much as $1,000,000 of income over three generations, depending on life expectancies of the beneficiaries.

What happened is simple. The IRS reduced the Required Minimum Distribution (RMD) that IRA owners must begin taking from their qualified accounts beginning at age 70 ½. The reduction was substantial and cut the RMD almost in half. If owners of IRAs are forced to take less income during their lifetimes there will likely be more money left in their accounts to be passed on to their beneficiaries. It gets even better. The children and grandchildren who are likely to inherit these IRAs are no longer forced to pay the tax in one to five years. Under the new rules these non-spousal beneficiaries can spread the distributions over their individual life expectancies. Instead of rapid distribution causing rapid taxation these beneficiaries can enjoy a lifetime of income and continue to earn interest on money that otherwise would have been paid to the IRS. *If it's so simple, why aren't all IRA owners taking advantage of the "Stretch"?*

Here's the problem. Different custodians of qualified accounts have different agendas, causing the owners to get mixed signals. Naturally all custodians of IRAs, 401(k)s and other qualified accounts want the owners to keep their money invested with them and continue to enjoy the fees, loads and expenses associated with managing these accounts. According to the ICI's 2007 Investment Company Fact Book, there is over $16.4 TRILLION of qualified money in America. *Managing these qualified accounts is <u>Big Business</u> and every potential custodian wants their piece of the pie. Think about it, at only a 1% management fee, based on $16.4 trillion of qualified accounts, this is a $164 Billion per year industry.* Many custodians of qualified accounts are charging 2% and higher.

The question is…who is the ideal custodian for your IRA? Let's examine the facts. Since ERISA in 1974 most IRA owners have been making contributions to their qualified retirement accounts and many of these accounts have become sizeable. IRAs and other qualified accounts have two unique lives. One is *accumulation* and the other is forced *distribution* at age 70 ½.

Let's look at the accumulation period first. During accumulation IRA owners could continue to make contributions to their retirement account until age 70 ½. We all know the market goes up and down, but for the most part these accounts continued to grow. Contributions helped compensate for market fluctuations. One reason these accounts continued to grow is the benefit of dollar cost averaging. If account owners continued to contribute when the market was down they bought securities at reduced prices and consequently benefited when the market went back up. *Dollar cost averaging, for many investors, saved the day and qualified accounts continued to grow.*

Now many of the owners are retired or nearing retirement and planning for the distribution phase. When IRA owners turn 70 ½ three important things change.

1. They can no longer contribute to their qualified accounts. This means they can no longer compensate for market losses.
2. Because they can no longer make contributions *all of the advantages of dollar cost averaging are lost*. When the market goes down their retirement accounts go down.
3. They are forced into mandatory distribution (RMD) and must begin taking income form their qualified accounts. (exception - Roth IRAs)

During distribution, market losses equate to income losses, for those taking only the required minimum distributions (RMD). If the market drops their RMD drops as well. Market losses, fees and loads are IRA owners and beneficiaries biggest challenges. According to the ICI's 2007 Investment Company Fact Book 83% of retirement funds are invested in securities and mutual funds. *It might be a good time to choose a new custodian for the distribution of your IRA.*

So who is the ideal custodian for the "Stretch" distribution of IRAs and 401(k)s? For over 200 years Insurance companies have been paying lifetime distributions to fixed annuity owners and beneficiaries without risk. Fixed Annuities offer unique advantages for those who are retired or nearing retirement, and planning for the distribution phase of their qualified retirement accounts. Fixed annuities are not subject to market fluctuations and guarantee the principal. Most fixed annuities also offer a minimum guaranteed rate of return. The interest rate in many cases will be greater than the required distribution allowing the account to continue to grow even when distributions are being taken. This means more money left in the account for the heirs. Insurance companies, through fixed annuities, can make lifetime distributions to IRA owners and their beneficiaries without the usual fees or loads associated with brokerage accounts. Payouts administered through fixed annuities include all state lotteries, school teachers, court awarded recipients, churches, nonprofit entities and the list goes on. The reasons that fixed annuities are used so widely for distribution is that they offer guaranteed principal, guaranteed rate of return and no fees or loads.

IRA owners and their heirs can enjoy these same guarantees and save thousands in administration costs, fees and loads. That means more income for IRA owners and their beneficiaries.

The new tax rules give IRA owners and their beneficiaries the gift of a lifetime of income. Rapid distribution causing rapid taxation can be avoided by knowing how to unwrap this wonderful gift. Choosing the ideal custodian during the distribution of your IRA can make the difference between a guaranteed lifetime income and disaster. Fixed annuities administered by insurance companies may be the solution and the best place to "Stretch" your IRA.