



**RICHARD C. CELLA, III**  
PARTNER  
IPSWICH BAY FINANCIAL RESOURCES

# Protecting Your IRA

A RESOURCE FOR MANAGING YOUR FINANCES FROM IPSWICH BAY FINANCIAL

FEBRUARY 2008

## Required Minimum Distribution for IRA Owners – Getting It Right!

You, as an IRA owner, must take a required minimum distribution (RMD) for your traditional IRA each year. Keep in mind, these RMD rules – explained below -- also apply to simplified employee pension (SEP) accounts as well as simple IRAs, since they are both considered IRAs for this purpose.

Here, we'll address the RMD<sup>1</sup> rules for IRA owners only – not beneficiary owners.

To begin with, you certainly may take more than the RMD each year. But the amount you take in excess of the RMD in one year cannot be used to take less than the RMD amount in any other year. So to begin...

### When must I begin my RMD?

You must begin your RMD withdrawals in the year you turn 70½. But, you get a slight break for that year – and only that year. If you don't want to take it by the end (December 31) of that year, you must take it by April 17 of the next year. Not much of a break!

### How often must I take my RMD?

You must take every other RMD by December 31 of every year following the year you turn 70½. If you delayed your first RMD to April 17, you still need to take your second RMD by December 31! That would be two RMDs in the same year. That could be a lot of added taxable income that year.

### What amount corresponds to my RMDs?

The RMD for the year in question is the value of your IRA (or total of all your IRAs if you have

more than one) as of December 31 of the previous year, divided by your life expectancy factor for the year in question. So each year RMD will change, since the value of your IRA will change and your life expectancy will change. So a new calculation must be done each year.

### How do I find the life expectancy factor?

The life expectancy factors are found in Appendix C of IRS publication 590. You will use either Appendix Cs Table II or Table III. In fact, you will use Table III (called Uniform Life Time) in all cases except for one. That one is if you are married AND your spouse is your sole beneficiary of your IRA AND s/he is more than 10 years younger than you. Only in that somewhat exceptional case will you use Table II (called Joint Life and Survivor Expectancy) since it gives a slightly higher expectancy factor at each age for you and your spouse – and depending on your spouse's age.

You (age)	Spouse is 11 or 21 years younger (age)	Table II with spouse >10 years younger age (life expectancy factor)	Table III Spouse <10 years younger or not married (life expectancy factor)
71	60	27.2	26.5
71	50	35.1	26.5
81	70	18.5	17.9
81	60	25.8	17.9

### In this issue...

RMDs .....	1
Early Withdrawals Without Penalties .....	2
EFTs .....	3
Annuity Tax Changes.....	3

<sup>1</sup> All information taken from IRS Pub. 590 and its Appendix C.

For curiosity sake, the table above compares the life expectancy factors for the usual case and the exceptional case – specifically when your spouse is 11 years younger than you. It compares them when you are 71 and 81.

Not a big difference unless your spouse is much more than 10 years younger!

**Give us a call or fill out the reply letter so we can help keep your RMDs on track.**

## Avoid Paying Penalties on Your Early Withdrawals

Millions of Americans that save money in their IRAs or qualified plans have no intention of withdrawing that money until after they reach age 59½. Unfortunately, there are times when circumstances dictate that this is absolutely necessary. Any number of misfortunes, such as medical expenses from an uninsured accident or an extended period of unemployment, can leave all other sources of liquid assets depleted.

Of course, your retirement assets are probably the last source of assets that you want to draw on in the event of a financial hardship, but at times you may have no choice. At all costs you would like to avoid the 10% early withdrawal penalty inherent in any kind of premature distribution. However, the IRS has allowed for several exceptions to this rule over time, although the rules for traditional and Roth IRAs versus qualified plans differ somewhat. These exceptions can be broken down as follows:

### Traditional IRA:

- Death
- Total and permanent disability
- 72(t) distribution (a series of substantially equal and periodic payments)
- IRS levy of the plan
- Medical expenses
- Qualified higher education expenses
- First-time homebuyer expenses up to \$10,000

- Health insurance premiums for the unemployed

### Roth IRA:

The same exceptions as for the Traditional IRA (first-time homebuyers can pull out \$10,000 in profits penalty-free and tax-free if the money has been in the Roth IRA for at least five tax years)

### Qualified Plans

- All of the exceptions that apply to Traditional IRAs
- Separation from service from your employer at age 55 or later
- Distributions made to your ex-spouse due to a qualified domestic relations order (QDRO)
- Dividend distributions from employee stock ownership plans (ESOPs)

The IRS has allowed these exceptions as both a means of relief and encouragement. The relief comes for the dead, divorced and disabled, while those who are trying to better themselves through education or trying to purchase a home can receive encouragement in the form of penalty-free distributions. Of course, these exceptions fall into a different category than other more common penalty-free transactions, such as rollovers or transfers between accounts or plans.

If you are currently strapped for funds and would like to know if you are eligible to take a penalty-free distribution from your IRA or qualified plan, call us.

**We can review your situation and show you how to minimize or eliminate the penalties from your retirement plan withdrawals.**

◆ *These articles are not intended to provide tax or legal advice and should not be relied upon for such. They are summaries of our understanding and interpretation of some of the current laws and regulations and are not exhaustive. Investors should consult their legal or tax advisor for advice and information concerning their particular circumstances.*

**Ipswich Bay Financial Resources, 150A Andover Street, Danvers, MA 01923 Phone: 888-356-6554.**

Securities offered through Investor's Capital Corporation. Member FINRA/SIPC.

Investment advisory services offered through Investor's Capital Advisory, 230 Broadway, Lynnfield, MA 01940

## ETFs Can Offer Diversification, Tax Breaks

Over the last few years, a new breed of mutual fund has become available to investors seeking liquidity and lower costs. These funds, called exchange-traded funds (ETFs), trade on the major exchanges and behave just like stocks, except that they offer similar diversification and professional management available in traditional funds. Over 350 different exchange-traded funds are now available, and the number is continuing to grow.

These funds can be useful for investors seeking to reap capital losses at year-end. As a hypothetical example, assume that you have stock in a certain technology company. The stock price has dropped precipitously since you got in, but you feel that this is only temporary. However, you would like to realize a capital loss on the stock while it is trading in its current range. But you must watch out for the “wash sale” rule as dictated by the IRS prohibiting the repurchase of any stock sold for a loss for at least 31 days following the sale. Therefore, a solution could be to sell the stock and buy shares of the appropriate corresponding exchange-traded technology fund. Even if this fund actually has your former stock as one of its core holdings, it is still considered a separate security by the IRS and the SEC. Therefore the wash sale rules will not apply.

Furthermore, you now have diversification within the technology sector, while retaining the same liquidity as before. The proliferation of exchange-traded funds now allows you to realize a loss with one fund and then jump into another if you desire.

And when should you sell a stock and buy the ETF representing the asset class to which the stock belongs? The obvious answer is when you have capital gains or other income, and taking a loss would help shelter that income. A capital loss can be declared against the amount of any gain received, plus \$3,000 of ordinary income per year.

Note that the strategy outlined will incur commissions for each ETF transaction, and these costs must be considered in light of the tax savings.

Additionally, there is risk in any investment strategy, and profits are not guaranteed.

If you would like to know more about exchange-traded funds and whether you would benefit from using them for tax swaps, call us. We can analyze your portfolio to see whether this strategy or another tax-saving strategy would be beneficial for you.

**Contact us now for more information regarding ETFs and other investment vehicles.**

## New Tax Change Makes Annuity Funded Long-term Care Policies Even Better

For some time, insurance buyers have been able to buy annuities or life insurance that included a long-term care benefit. Here is how the policies generally work. In many cases, some of the earnings from the cash value in the life policy or the cash value of the annuity are used to pay premiums for long-term care insurance protection. A hypothetical example might look like this:

Our hypothetical investor, a 65-year-old man, pays a premium of \$50,000. He obtains a life policy with a death benefit of \$74,718. He also gets long-term care insurance amounting to \$149,436, to be used at a rate of \$3,133 monthly, when the policy owner qualifies for long-term care benefits. So far, this may look attractive because there are no annual out of pocket premiums—the only payment is the single payment of \$50,000. Additionally, assuming that there are no prior withdrawals or payments for insurance benefits, the insurance company will guarantee the \$50,000 which can be withdrawn at any time<sup>2</sup>.

The \$50,000 cash value is credited with interest

<sup>2</sup> Lincoln Life Insurance Moneyguard reserve policy as of 11/28/06. Not everyone can qualify for insurance, and premiums may be based on health. Fees, expenses and surrender charges apply to life policies and annuities. Withdrawals from annuities and modified endowment contracts are subject to a 10% penalty prior to age 59½. Withdrawals are taxed as ordinary income. Guarantees are based on the claims-paying ability of the insurance company.

each year at a gross and guaranteed minimum rate of 4%. But from the accumulated cash value, deductions are made to pay for the life insurance and the long-term care insurance. Currently, the deductions from the policy to pay for the long-term care insurance are taxable to the policy owner because the IRS views them as payments from the life policy (and because this policy was purchased with one large premium, the IRS classifies it as a modified endowment contract and taxes the first withdrawals as ordinary income).

Good news. The Congress would like everyone to have long-term care protection so that as of 1/1/10, these combination policies where a life policy or annuity is funding the long-term care insurance will no longer generate taxable income to the owner. The change applies to policies purchased after 1996. However, through 2009, owners of these combination policies will need to make the tax payments each year. Also, one may consummate a tax-free exchange of an annuity or life policy after 2009 for one of these combination policies.

If you have been interested in long-term care protection without annual out of pocket costs, these single premium annuity or life policies may be the answer.

<b>Contacting IBFR</b>	
Richard Cella .....	X11 rcella@ipswichfinancial.com
Cliff Watkin.....	X14 cwatkin@ipswichfinancial.com
Jeannine Chiappini.....	X12 jeannine@ipswichfinancial.com
Margo Killoran .....	X10 margo@ipswichfinancial.com
Ryan Heidorn .....	X13 ryan@ipswichfinancial.com

**IBFR Continues to Grow!**



In October, IBFR welcomed Clifford Watkin as partner to manage our employee benefit consulting and services. Cliff comes to us with a wealth of experience in the employee benefits and human resource fields. He will be working closely with

Jeannine to continue to provide exceptional plan development, management, and service to our clients.

We also welcome our newest employee, Ryan Heidorn as Account Manager. Ryan will be assisting our retirement clients, as well as providing general office management.

**IBFR's latest seminar offering...**

**Portfolio Management Strategies for a Volatile Stock Market**

**Tuesday, February 5  
6:00-8:00 P.M.  
Angelica's Restaurant  
Route 114, Middleton, MA**

**Join Richard for dinner and a timely presentation regarding strategies to help you protect your retirement and investment portfolios from excess loss due to market down turns.**

**RSVP at 888-356-6554, X10 or Margo@ipswichfinancial.com**

***Seating is Limited!***