

The Ever-Changing IRA Marketplace

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Legislative Changes

- Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA)
 - Lifts eligibility restrictions on conversions, beginning in 2010
- Pension Protection Act 2006 (PPA)
 - Allows nonspouse beneficiary rollovers, beginning 2007
 - Allows direct rollover/conversion from employer-sponsored plan to Roth IRA, beginning 2008



Legislative Changes (continued)

- Tax Relief and Health Care Act 2006 (TRHCA)
 - Created one-time transfer from IRA to HSA
- Worker, Retiree, and Employer Recovery Act 2008
 - Waived 2009 **Required Minimum Distribution** requirement
 - Proposals to waive RMDs through 2010/2012/2013
 - Proposals to delay RMDs until age 75



IRA Savings Trends

- \$15.9 trillion in U.S. retirement savings with \$4.1 trillion in IRAs as of Sept. 2008
- IRA asset growth fueled by retirement plan rollovers
- 4 out of 10 U.S. households own IRAs
- 32% of U.S. households own Traditional IRAs
- 15.9% of U.S. households own Roth IRAs

Source: *The U.S. Retirement Market, Third Quarter 2008*, Investment Company Institute (ICI), Feb. 2009



IRA Savings Trends (continued)

- More assets in IRAs than in employer-sponsored retirement plans, largely due to retirement plan rollovers
- More regular contributions are now being made to Roth IRAs than to Traditional IRAs
- Annual contributions under SEP and SIMPLE IRA plans exceed Roth IRAs and Traditional IRAs individually

Source: *Ownership of Individual Retirement Accounts (IRAs) and 401(k)-Type Plans*, Employee Benefit Research Institute (EBRI), May 2008



Population Trends and Statistics

- Total population: 299,000,000+
- 78 million baby boomers: born between 1946–1964, ages 45–63
- 7,918 individuals attained age 60 each day in 2006 (Bureau of Census)

| Age | Number in Millions |
|-------------|--------------------|
| Under 55 | 229,014 |
| 55 to 59 | 18,371 |
| 60 to 64 | 14,931 |
| 65 to 69 | 11,165 |
| 70 to 74 | 8,423 |
| 75 to 79 | 7,353 |
| 80 to 84 | 5,559 |
| 85 and over | 4,289 |

2008 U.S. Census Bureau



Breakdown of Population By Generation

| Generation | Birth Years |
|------------------------|-------------------------|
| X | mid-60s to late 70s |
| Y | late 70s to mid-90s |
| Z “digital natives” | mid-90s to end of 2000s |

Wikipedia



Labor Statistics and Trends

- Unemployment rate up: approx. 10% currently
- Around 17.6 Million unemployed (D.O.L. Sept 2009)
- Historically, recessions lead to increased self-employment and small-business start-ups
 - American Recovery and Reinvestment Act of 2009 provides Small Business Administration \$630 million for small business loans
 - Increased need for SEPs, SIMPLE IRA plans, and Individual(k)s
 - Potential increase in high deductible health plans and health savings accounts



Labor Statistics and Trends (continued)

- 8.3% increase in S corporation filings from 2006 to 2007;
- 6.8% increase in partnership filings from 2006 to 2007 (IRS)
- Over 27 million partnerships and sole proprietor filings



New Opportunities

- Capturing assets through retirement plan rollovers from employer-sponsored plans
- Conversions in 2010
- SEP and SIMPLE resurgence in the small business sector



Capturing Assets Through Retirement Plan Rollovers

- Identify distributable event “triggers”
- Train staff
- Capitalize through understanding of regulations
- Develop a strategy to contact and educate employers to capture retirement plan assets



Common Triggering Events

When can assets be distributed?

| Qualified Retirement Plans | 403(b) Plans | 457(b) Plans |
|--|---|--|
| <ul style="list-style-type: none"> • Death • Disability • Normal retirement age • Plan termination • Severance from employment • In-service withdrawal • Hardship • Qualified reservists | <ul style="list-style-type: none"> • Age 59½ • Death • Disability • Severance from employment • Hardship • Qualified reservists • Plan termination <p>NOTE: <i>Certain pre-1989 balances need no trigger.</i></p> | <ul style="list-style-type: none"> • Year participant attains age 70½ • Severance from employment • Unforeseeable emergency • Plan termination |



Understanding Regulations

- Know that employers must provide an IRC Sec. 402(f) notice to participants before a distribution
- Inform and address with taxpayer mandatory withholding from QRPs, 403(b)s, and governmental 457(b) plans
- Understand the difference between a direct and indirect rollover
- Explore the benefits of a conversion/rollover
- Offer IRA rollover as a means of alleviating tax issues



2010 Conversions

- Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) removes restrictions beginning Jan. 1, 2010
 - Married and filing separate tax returns
 - MAGI exceeds \$100,000
- High income taxpayers now have first time opportunity to have a Roth IRA
- Taxation can be deferred and prorated to 2011 and 2012



Benefits of Converting

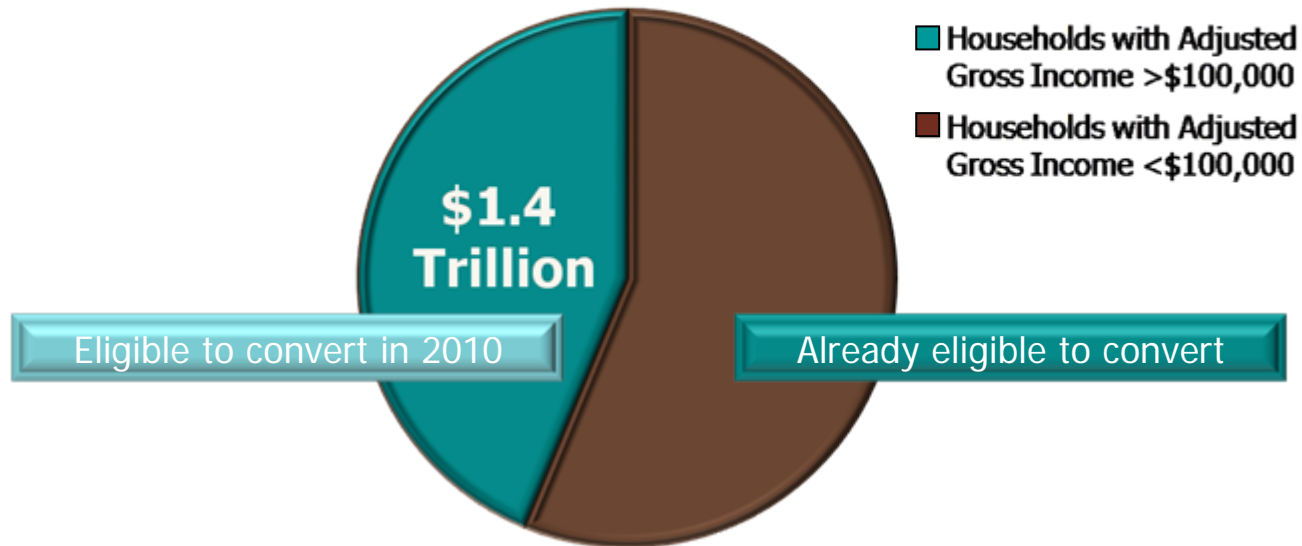
- No future taxation of earnings after conversion
- Roth IRAs are not subject to required minimum distributions (RMDs)
- Roth assets generally pass TAX FREE to beneficiaries
- No early distribution penalty for individuals under age 59½
- Reduced taxation on other retirement benefits

– e.g., Social Security



Where Is the 2010 Roth Opportunity?

U.S. IRA Assets – December 2008
\$3.2 Trillion



Approximately 23 million taxpayers with an estimated \$1.4 trillion in Traditional IRA assets will become eligible to convert in January 2010

*Internal Revenue Service – *Accumulation & Distribution of Individual Retirement Arrangements*



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Where Is the 2010 Roth Opportunity?

- Approx. 23 million taxpayers that own Traditional IRAs have adjusted gross income of \$100,000 or more*
- Households earning \$100,000 or more held approx. \$1.4 trillion (44%) of the \$3.2 trillion in Traditional IRAs at the end of 2008*

Where Is the 2010 Roth Opportunity? (continued)

- Most individuals with household income of \$100,000 or more with money in former employers' retirement plans will be eligible to roll over to Roth IRAs



Two Tax Options

An individual may choose one option after completing a conversion or rollover to a Roth IRA in 2010

Pay the total taxes
in 2010

Pay the total taxes over 2011 and
2012

OR

This is an either/or proposition; an individual may only use ONE of these options.



Simplified Employee Pension Plans

- Target small business relationships
- Replacement to old employer plan
- Employer plan document does not have to be provided by your institution
- Contribution can be made to any IRA at any institution



Simplified Employee Pension Plans (continued)

- Package HSA as a small business solution
- Holistic approach to product offering
- Network with practitioners for referrals (e.g., accountants, attorneys, and insurance agents)
- Maximum contribution is 25% of compensation \$49,000 for 2009 and \$49,000 for 2010



Call to Action

- Update marketing materials
- Conduct ongoing staff training
- Create member education
- Acquire technology tools
- Make sure processes and procedures can accommodate member requests



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