

# Advanced IRAs Strategies:

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## *Five Ways to Take Income from an IRA*

**NOT FDIC INSURED – NO BANK GUARANTEE – MAY LOSE VALUE**

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# Important Information

Carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett funds. This and other important information is contained in the fund's summary prospectus and/or prospectus. To obtain a prospectus or summary prospectus on any Lord Abbett mutual fund, contact Lord Abbett Distributor LLC at 888-522-2388 or visit us at [www.lordabbett.com/advisor](http://www.lordabbett.com/advisor).



# Important Information (cont.)

The information in this presentation is being provided for general educational purposes only and is not intended to provide legal or tax advice. You should consult your own legal or tax advisor for guidance on regulatory compliance matters. The examples presented are hypothetical and are intended only for illustrative purposes.

Combining and/or consolidating assets in an IRA rollover may involve the application of administrative fees and other charges to the investor.

Investing involves risk, including the possible loss of principal.



# Important Information (cont.)

Traditional IRA contributions plus earnings, interest, dividends, and capital gains may compound tax-deferred until you withdraw them as retirement income. Amounts withdrawn from traditional IRA plans are generally included as taxable income in the year received and may be subject to 10% federal tax penalties if withdrawn prior to age 59½, unless an exception applies.

Minimum distributions must be taken from traditional IRAs by April 1 following the year that a person turns 70½. A minimum distribution must be taken from the IRA in each subsequent year. Failure to take the required minimum distribution will result in a 50% penalty on the amount that was not distributed. Mandatory distributions that represent deductible contributions and all earnings are taxed as ordinary income. Mandatory distributions based on nondeductible contributions are tax-free.

A 403(b) Plan offers pre tax and Roth after tax payroll investment features of a 401(k) Plan and most nonprofit organizations, typically schools and charities. Generally, if the program offers payroll contributions only, it is called a non-ERISA 403(b) arrangement. If there are employer contributions, it is called an ERISA 403(b).



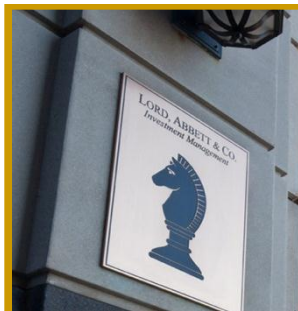
# Important Information (cont.)

A Roth IRA is a tax-deferred and potentially tax-free savings plan available to all working individuals and their spouses who meet the IRS income requirements. Distributions, including accumulated earnings, may be made tax-free if the account has been held at least five years and the individual is at least age 59½, or if any of the IRS exceptions apply. Contributions to a Roth IRA are not tax deductible, but withdrawals during retirement are generally tax-free.

A Stretch IRA is for investors who will not need their IRA money during their own retirement. While the law does not restrict which tax payers can select the stretch IRA option, the stretch strategy is appropriate only for those individuals who simply need and plan to receive the required minimum withdrawals, taken at the latest time the law allows, without penalty, age 70½ .



# The Lord Abbett Story



**Founded in 1929, Lord Abbett is an independent, privately held money management firm.**



**We have a singular focus on the management of money.**

100% of our revenues are derived from one activity—the management of money.

**We view our business as the practice of a craft.**

Our approach is not a commodity but a craft practiced by skilled and experienced professionals.

**We are committed to the stewardship of our clients' assets.**

We understand and accept the responsibility entrusted to us—and hold ourselves accountable for the results.



# What Makes Us Different?



## How we manage the firm



### Our consistency of culture

- Driven by independent ownership
- Provides long-term perspective
- Fosters thoughtfulness, judgment, and insight
- Enables organizational stability

### Our singular focus

- Ensures firm-wide integrity
- Delivers a quality investment experience
- Shapes our organizational structure



# What Makes Us Different? (cont.)



## How we manage money



### Our belief in active management

- More than 45 portfolio managers, with an average tenure of 18 years of industry experience\*
- A team-based approach that seeks to actively exploit market inefficiencies

### A commitment to research

- More than 60 investment professionals with specialized industry knowledge\*
- Research analysts utilize fundamental and quantitative research to uncover timely investment opportunities

### An adherence to risk management

- A process focusing on the balance between risk and reward
- Ongoing management of the appropriate exposure to company, industry, and economic events



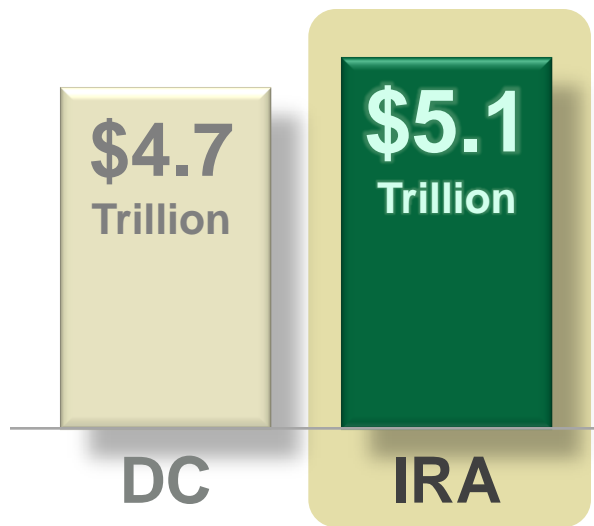
\*As of September 30, 2012.



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# How Big is the IRA Opportunity?



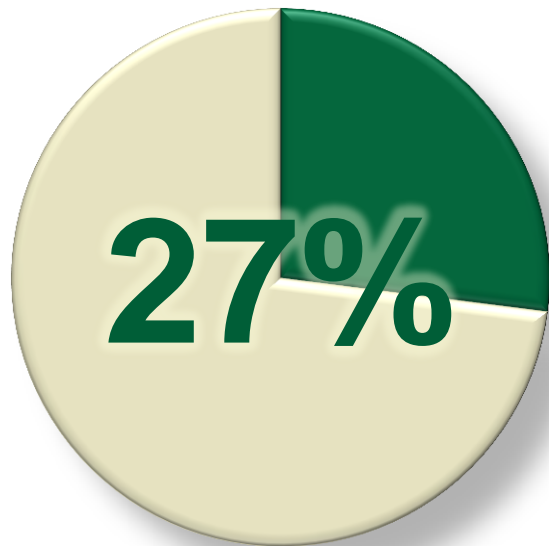
**Assets Available in Each Market**



Source: Investment Company Institute, the Retirement Market, June 2012

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# How Big is the IRA Opportunity?



**IRAs portion of the total retirement market**



Source: Investment Company Institute, the Retirement Market, June 2012

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# How Big is the IRA Opportunity?

**\$1.5  
trillion**

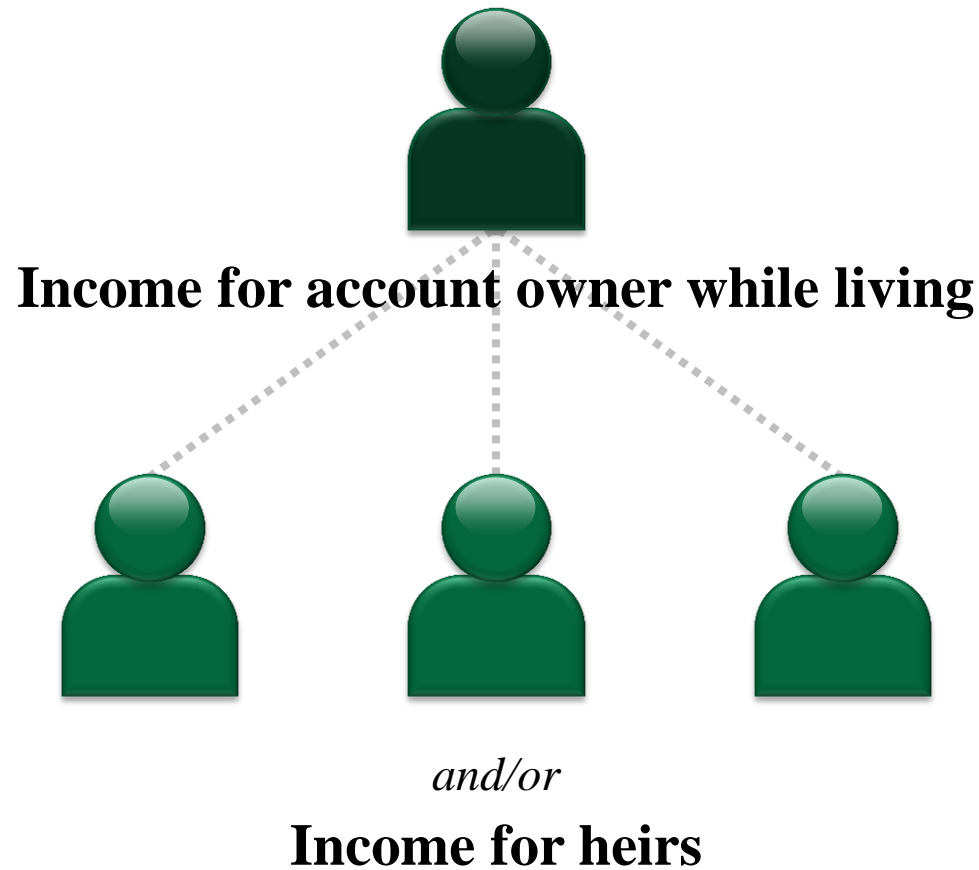
**Assets eligible to roll into  
IRAs between 2011 and  
2015**



Source: "Winning in the D.C. Market of 2015: New Realities Reshape the Competitive Landscape," McKinsey & Company, September 2010; most recent data available.

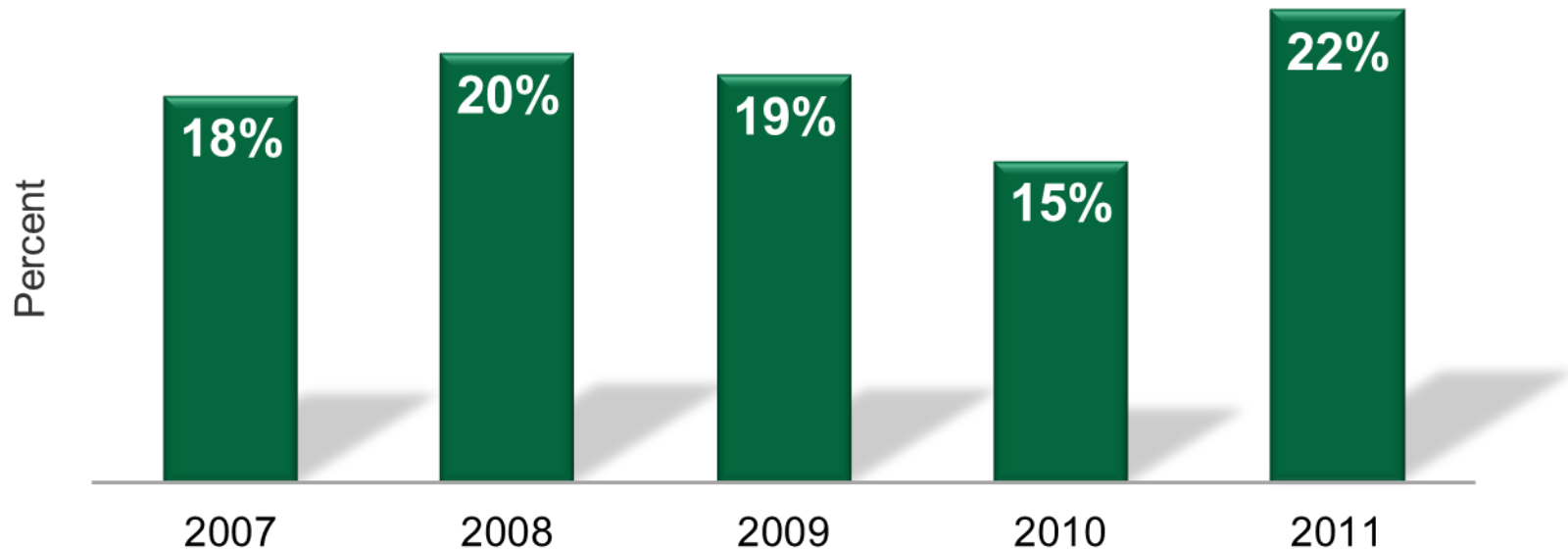
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# All IRAs Will Eventually Be Distributed



# Traditional IRA Withdrawals are Growing

## Increased Traditional IRA Withdrawal Activity



Note: Households were surveyed in May of the year indicated and asked about withdrawals in the prior year.  
Source: Investment Company Institute IRA Owners Survey, November 2011.



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# Your Clients Want IRA Advice

## FAs are the go-to source of IRA advice

*(Percentage of traditional IRA-owning households that made withdrawals in tax year 2010)*



Note: Multiple responses are included. Total number of respondents is 358.  
Source: Investment Company Institute IRA Owners Survey, November 2011.



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# Five Ways to Take Income

**1. Normal**

**2. Premature (with and without exception)**

**3. 60-Day Rollover**

**4. Required Minimum Distribution (lifetime)**

**5. Required Minimum Distribution (beneficiary)**



# 1. Normal Withdrawal

## 1. What is a normal IRA distribution? Normal

### Roth IRA

- Distribution occurs upon account owner reaching age 59½ and has Roth IRA for five calendar years
  - Account owner must have attained age 59½
  - “Qualified distribution”
  - Not calendar year
- Distribution would **not** be subject to the 10% premature penalty
- Distribution is taxable (unless after-tax dollars were deposited)
  - Pro-rata formula





# 2. Premature Withdrawal (No Exception)

What is a premature distribution *without* an exception?

## Roth IRA

- Distribution from a Roth IRA is *not* taxable as long as the Roth IRA owner has reached age 59½; no exception applies
- Roth IRA distribution “distribution rules”
  1. Distribution would be subject to *both* 10% premature penalty and income taxes
  2. Contributed amounts are distributed first
  2. Converted amounts are distributed next  
(Same general rules for a SEP IRA)  
(First in first out (FIFO) basis)
    - SIMPLE IRA 25% penalty (in first two years of participation)
    - Each Roth conversion has its own 5-year holding period
  3. Earnings are distributed last



# 2. Premature Withdrawal (Exception)

## Exception to 10% Penalty

**IRAs  
Only**

- Higher Education Expenses
- First Time Home Buyer
- Payment of Medical Insurance Premiums During Unemployment



# 2. Premature Withdrawal (Exception)

## Exception to 10% Penalty

**Qualified  
Plans  
Only**

- Separation from Service (age 55)
- Qualified Domestic Relations Order
- Age 50 Public Safety Employees
- 457 plans



# 2. Premature Withdrawal (Exception)

## Exception to 10% Penalty



- ~~§ 72(t)~~
- ~~Medical~~ Expenses
- ~~Disability~~ Incurred Medical Expenses



# 3. 60-Day Withdrawal and Rollover



One “IRA to IRA” rollover permitted in a 12-month period.  
One distribution must be rolled over into another IRA within 60 days of receipt.  
Not a tax-deferred year-end IRA distribution.  
Taxes and/or penalties would not apply to this payment (if received).

- Distribution dates (not rollover dates) count
- Non-spouse not permitted
- Possible to take series of “60-day” loans



# 3. 60-Day Withdrawal and Rollover



**Bart**

## EXAMPLE 2: Different IRAs

**Bart withdraws \$10,000 from IRA #1 and pays \$10,000 to IRA #2**

- IRA #2 has the April 15, 2012, deadline to return the amount withdrawn
- Both IRA #1 and IRA #2 are not eligible for a rollover until March 2, 2013 (from IRA #1) on March 2, 2013



This hypothetical example is for illustrative purposes only.

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# 3. 60-Day Withdrawal and Rollover

## Caution!

A rollover cannot be repaid to a SIMPLE IRA unless the funds were withdrawn from a SIMPLE IRA; but SIMPLE assets, if the SIMPLE were at least two years old, could be returned to any IRA.

IRA rollover limit has no effect on “trustee-to-trustee” transfers



# 4. Required Minimum Distributions

## Lifetime Required Minimum Distributions

### Traditional IRA

- Contributions must cease in the year the IRA owner reaches age 70½
- First RMD is required in the year the account owner reaches age 70½
  - Ability to delay until April 1st of the following year





# 4. Required Minimum Distributions

## Lifetime Required Minimum Distributions



### EXAMPLE 1:

**Sarah turns 70 ½ in 2012 . . .**

- Sarah can take her first RMD in 2012 or delay until April 1, 2013
- Sarah (if 1st RMD is delayed) is required to take two RMDs in 2013



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# 4. Required Minimum Distributions

## Lifetime Required Minimum Distributions

### Roth IRA

Account owner is never required to take a distribution

**Caution!**

RMDs do apply for a  
non-spouse beneficiary!  
to surviving spouse  
to Roth 401(k)/403(b) accounts



# 4. Required Minimum Distributions

## Lifetime Required Minimum Distributions



### EXAMPLE 2:

- Mary, single, born May 1, 1942, turns 70½ in 2012
- Her required beginning date is April 1, 2013



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# 4. Required Minimum Distributions

## Lifetime Required Minimum Distributions



### EXAMPLE 2:

Mary's first RMD (Traditional IRA):

2012 Year-end balance

Life expectancy factor  
(uniform life table)

26.5

650



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# 4. Required Minimum Distributions

**Total RMDs (across all IRAs) may be taken from any one or multiple IRAs**



# 4. Required Minimum Distributions

## What about 403(b) Accounts?

**Account owner RMD must be calculated separately for each 403(b)**

- Total RMDs (gross) at age 70½ may be taken from separate or multiple 403(b)s
- IRA RMDs may not be taken from 403(b)s, 403(b) RMDs may not be taken from IRAs to be distributed until later of age 75 or retirement



# 4. Required Minimum Distributions

## What about 401(k) Accounts?

**RMD must be calculated and taken separately for each 401(k) account**

- RMD is 5% of the aggregate 401(k) RMD account balance as of the first calendar year in which the employee reaches 70½ or (2) calendar year in which the employee retires from the employer
- RMD is based on the plan—same as traditional IRA
- See Summary Plan Description for plan rules



# 4. Required Minimum Distributions

## Remember

- SEP and SIMPLE IRA participants age 70½ or older are eligible to participate; minimum distributions are still required
- RMDs must be taken in any year in which the participant can waive the penalty for good cause
- RMD is 50% of the amount not taken





# 5. Required Minimum Distributions (Non-Spouse Beneficiary)

## Your Choices as a Non-Spouse Beneficiary:



3

**Liquidate the IRA immediately**  
Begin taking distributions (based on beneficiary's life expectancy) no later than December 31 of the year following the account owner's death ("5-year rule")  
**10% penalty does not apply**



# 5. Required Minimum Distributions (Non-Spouse Beneficiary)

You've inherited an IRA, now what?



**Inherited IRA  
should be re-titled:**

**JAMES JONES, IRA DECEASED  
(JANUARY 2, 2012)**

**F/B/O: JOHN JONES, BENEFICIARY**

Use beneficiary Social Security  
number (not decedent)



# 5. Required Minimum Distributions (Non-Spouse Beneficiary)

## What not to do:

~~Non-Spouse beneficiary cannot  
contribute to IRA  
(60-day Roth IRA RMD)~~



# 5. Required Minimum Distributions (Non-Spouse Beneficiary)

**Post-death IRA-to-IRA  
("trustee-to-trustee")  
transfers are permitted!**



# 5. Required Minimum Distributions (Non-Spouse Beneficiary)



## EXAMPLE:

- Maggie is 55 and inherited an IRA (2014) first Minimum Distribution no later than December 31, 2013, based on the following

$$\frac{\text{2013 Year-end balance}}{\text{Life expectancy factor (42.6)}} = \text{\$2,294}$$

Maggie's life expectancy factor (Single Life Expectancy Table) **43.6**



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# 5. Required Minimum Distributions (Spousal Beneficiary)

## Your Choices as a Spousal Beneficiary:



3

### Spousal Rollover

Elect to treat deceased spouse's IRA

• Surviving spouse does not have to be sole beneficiary

• Election can be made any time after account owner dies prior to their RBD

• Permitted whether the deceased spouse died before or after taking RMDs

• 10% penalty reattaches



# Action Steps



# Action Steps

**1**

**Determine which clients have multiple IRAs**

**2**

**Discuss potential penalties and/or taxes prior to taking an IRA withdrawal**

**3**

**Be aware of different IRA “ordering” rules**

**4**

**Become familiar with IRS tax forms and publications**

**5**

**IRA income = seamless process**





# Helpful Resources

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# The Lord Abnett Easy IRA

**E A S Y**

## **No Hidden Fees**

- No annual custodial fees; no account set-up charges; no charges for paper statement

## **Fast Account Set-up**

- User-friendly electronic applications; same day set-up with ACH electronic funding; free FedEx shipping for paperwork; tax refunds directly to IRAs

## **Simple Investment Selection**

- Single fund allocation strategies and portfolio-building tools

## **Outstanding Client Service**

- Dedicated advisor and investor call centers; industry-leading account statements and websites; private consultations with IRA experts; extensive IRA resources

Lord Abnett will waive (or otherwise pay) the yearly \$10.00 custodial fee that would be charged each year on an ongoing basis to every new IRA account and, therefore, will not assess a custodial fee in 2013 or any year afterward. Free also applies to the Federal Express (FedEx) charges currently absorbed by the broker/dealer to submit paperwork to DST to open a Lord Abnett IRA account. Fund level fees and expenses are still applicable. Please see the current prospectus.



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# The Ideas for IRAs Program



**An “end-to-end” IRA prospecting program created to give advisors compelling ideas to pinpoint rollover opportunities. It includes:**

- An extensive and ever-growing list of ideas for approaching new rollover candidates.
- Access to new, qualified IRA prospects through our online business intelligence tool, *Insights & Intelligence*.
- Call scripts, educational resources and solutions to take you from conversation to application.



# Consult Our Experts



**Brian Dobbis,**  
QPFC, QPA, QKA,  
Retirement Analyst

## Our experts are available to discuss the following topics:

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- IRA strategies
- Qualified retirement plans
- Fiduciary questions
- Converse with prospects, clients, CPAs
- Public seminars
- Prospecting ideas

**888-522-2388** (select option 3)



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- IRA Basics
- Advanced IRA Topics
- Roth Conversion Resource Center
- Retirement Calculators
- Intellectual Capital
- *Ideas for IRAs* Program



# Questions?



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**888-522-2388**



Website

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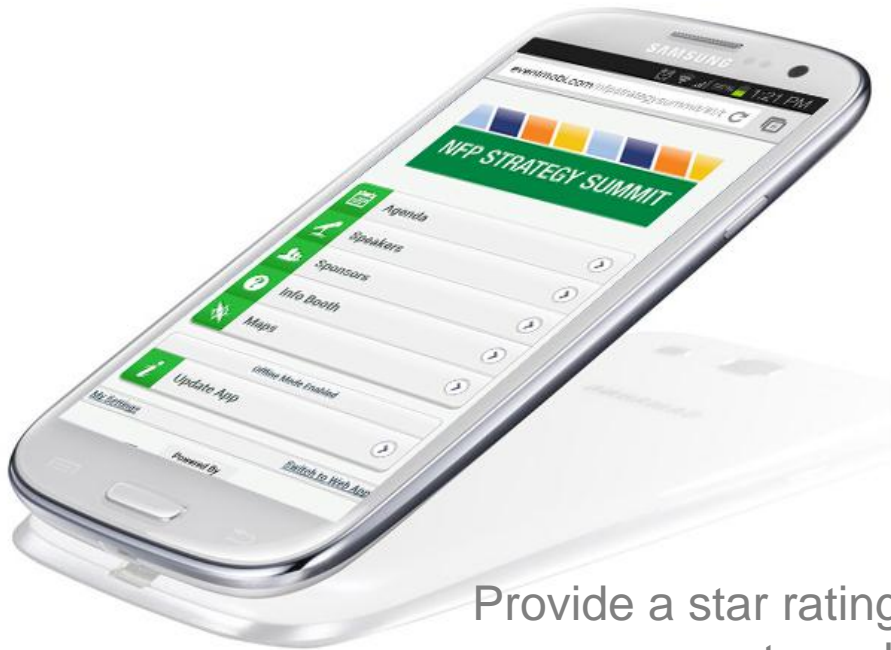
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