

Safe Money Advisory



The Hidden Escape Hatch in Your 401k

**Houston, Texas
For Immediate Release**

Do you think income taxes are going up or down in the next couple of years? Judging from current presidential campaign rhetoric and the 2010 expiration of the Deficit Reduction Tax changes in 2005 and 2006, taxes are undoubtedly headed higher. Also, unless Congress acts, the Roth IRA conversion income rule will be suspended in 2010 so that high income individuals can qualify. Expected tax hikes, and the more liberal Roth IRA rule, mean you should pay attention to your 401k [other qualified pension plans may also offer the same opportunities]. Let's see how.

Let me introduce you to Leon, age 58. Leon is his family's primary bread winner and very concerned about where his retirement money is invested. He learned a valuable lesson from the dot.com meltdown in 2000-2002, because a sizeable portion of his family's savings and 401k assets were lost. It has taken the past six years to recover from these losses, and he's especially concerned about what might happen in the current uncertain economic times. He views the credit-energy-dollar problems as alarming and wants to move his 401k money out of harms way, because he doesn't have time to wait for a market recovery. Also, he expects income taxes to rise and would like to use this to his advantage. What can he do?

Leon's employer has modified the company's 401k plan to allow for in-service, non-hardship withdrawals. This is a simple procedure implemented by the administrator that will allow Leon, and other employees, to take their employer's contributions out of the company's 401k plan, regardless of their age, and put them in an IRA. Additionally, Leon and several other employees rolled over other qualified money into the employer's 401k plan when they joined the company; and these, along with the associated earnings, can also be moved to an IRA. There will be no tax due or withheld from a trustee-to-trustee transfer to an IRA. Also, Leon and other employees transferring money can continue participating in the company's 401k. What are the advantages to Leon?

Several of Leon's co-workers are moving to an IRA, but a few have selected the Roth IRA. Leon would like to put his 401k money in a Roth IRA but he makes more than \$100,000 annually and this disqualifies him; however, in 2010 when this restriction is removed, he will be able to convert his IRA into a Roth IRA without penalty. If taxes go up as he expects at the end of 2010, he'll pay the Roth IRA conversion taxes at the lower rate. He'll get an additional break because only one-half the associated income taxes are due in 2011 with the remainder paid in 2012. Since he must wait five years following conversion to withdraw penalty-free from the Roth IRA, he is transferring the money to a bonus index-linked annuity. There are two reasons for his selection.

First, he has moved his retirement money out of the way of another market meltdown and gotten a bonus to boot. Granted, the market may do fine, but Leon can't afford to take the risk that the market involves. In seven years he plans to review his, and the economy's, situation and re-invest the money. Unless things change, he'll consider a bonus index-annuity at that time because the bonus will be tax free, and he'll be immune to market gyrations. Second, he has "locked in" recent-year gains from his 401k because he has no downside risk if he holds the annuity until maturity. The added advantage is that the Roth IRA grows tax-free and has zero tax liability, plus Roth income will not increase taxes on his Social Security. His Roth money can be used at any time after the fifth year following rollover. If not used during his or his spouse's lifetime, it can be passed forward tax-free to their children and grandchildren. The Roth IRA payments taken during the beneficiaries' lifetime will also be tax free.

At age 59½ Leon intends to take his employee contributions and earnings out of the 401k since the in-service, non-hardship provision, along with the IRS and ERISA, allows him to do so without penalty and also continue participating in the company's 401k. He'll decide at that time where he wants to put it and also whether or not another Roth IRA is suitable. He can then be totally insulated from market losses that could easily ruin his retirement plans.

Leon, like a lot of 401k participants, is in the "red zone" right before retirement and, as a practical matter, cannot afford to suffer market losses. Many small business owners and professionals (doctors, lawyers, executives, etc.) are in the same position. The investment selections inside their employer's plan do not provide them the flexibility, selection or protection they need during this phase of their working years; thus, they opted to take control of their investments outside of an employer's plan. Additionally, they're prepared to take advantage of the upcoming changes in the Roth IRA qualifications and can pay the taxes before they increase. Index-linked annuities are the perfect vehicle for the journey to this tax haven. If you're in a similar position, ask your employer about an in-service, non-hardship withdrawal from your 401k and then contact your financial advisor.

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