ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

Avoid These IRA Annuity Traps

Not all advisors use annuities as a part of their planning, but it's fair to say that nearly all advisors will have at least some clients with annuities in their IRAs. Whether you personally recommend them or not, annuities in IRAs pose some traps not found (or not found as frequently) with other types of IRA investments. Advisors must know the rules to keep clients from being ensnared.

A quick note: This article focuses on IRA annuity tax traps, but that's not to say that annuities are, or are not, appropriate investments for clients within their IRAs. As is generally the case with most planning strategies, advisors should approach the investment in an annuity within an IRA on a case-by-case basis.

Using the Wrong Value to Calculate Roth Conversion Income or RMDs

IRA valuation is critical when determining clients' required minimum distributions (RMDs), which are based on the prior year-end fair market value (FMV) of IRA assets. It is also critical for Roth conversions, because the resulting tax bill is based on the FMV of the IRA assets on the date of the conversion.

Valuing certain deferred annuities can be tricky, though. Many of the deferred annuities offered today have a number of different values associated with them, all of which may be important for clients to know about and understand. For instance, many annuities have an *accumulation* value which might represent the fair value of the assets held *within* the annuity (which might differ from the fair value of the entire annuity). There may also be a separate value tied to an added benefit, sometimes referred to as the benefit base or rider value. Neither of these values may be acceptable for an IRA valuation.

Example:
Ron holds a deferred annuity in his traditional IRA that, after a significant

October IRA Deadlines

15th Last day to recharacterize 2012 Roth conversions

15th Last day to withdraw prior year excess IRA contributions and avoid the 6% penalty for 2012

31st Last day for trustees of IRA trust beneficiaries who inherited in 2012 to provide documentation to IRA custodians or plan administrators

WHAT'S INSIDE?