



What Do You Do When Your 401k/IRA Balance Hits Zero?

Most people over 50 years old are aware of the penalty for withdrawing money out of their retirement plans (401k or IRA) prior to age 59 ½. By doing so, the IRS would levy a 10% penalty for early withdrawal against the account holder.

However, many of these same retirees and pre-retirees are unaware that at age 72, you must begin withdrawals out of these very same retirement accounts. That's right! The IRS mandates at 72 years of age, you must begin what is called, your required minimum distribution (RMDs).

Here's the most important fact. That if you don't begin your RMDs by age 72, the IRS will hit you with a penalty of 50%! Let's suppose you were required to take out a minimum of \$6,000 this year and you didn't. You would have to pay a penalty of \$3,000 (50% of the \$6,000)!

Let's take it a step further. For example, a person who is 67 years old and retired. She has \$250,000 in her 401k or IRA. In 3 ½ years (age 72), the IRS will force her to begin her required minimum distributions. The IRS has a formulated calculation that it goes by to determine how much your monthly distribution amount will be.

Now here's the dilemma for the accountholder. How long will this money last after you begin your RMDs? What if you live (like my own father) to age 90 and beyond? At that point, will you be financially prepared to receive one less monthly paycheck? In other words, most retirees live on social security, savings, and retirement accounts. This is commonly referred to in the financial world as the "3-Legged Stool." Could you manage financially if one of those legs (retirement accounts) were cut-off and didn't pay you anymore? This could easily happen. I call this longevity risk.

The answer is simple. If by rolling-over your 401k or IRA into a vehicle that would continue to pay you for as long as you live, would it be of interest to you? Yes, of course it would! Let's use the same example of the retired lady with \$250,000 in her 401k. If she rolled

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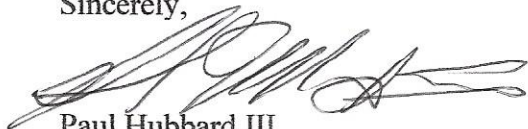
it over into a fixed index annuity (FIA), 3 ½ years later, she still would have to begin her RMDs (IRS mandated).

However here is the difference. After taking your distributions out of the 401k or IRA for several years, your balance would eventually be reduced to zero, if you live long enough (longevity risk). Therefore, with your account at zero, you would have no more money coming your way. The income stream would be cut-off.

On the other hand, with an FIA your income stream would continue to pay you for as long as you live (even when your account balance is zero). Let's say that with this fixed index annuity you have been receiving a monthly check of \$1,500 per month for 20 years. Then you reach the point in your account that the balance is zero. Regardless of having zero dollars in your account, the insurance company is contractually obligated to continue paying you the \$1,500 per month. This is nothing new. It is one of the unique features of annuities. Now that's taking the Longevity Risk element off the table. Income that you cannot outlive.

Lastly, by leaving your 401k or IRAs where they are. You are placing your financial life in the "cross-hairs" of longevity risks unnecessarily. So what do you do when your 401k or IRA balance hits zero? Answer; feel the pain, because it will be too late to do anything about it. If you know of anyone in need of my services or would just like to discuss further. Please feel free to reach out to me. I can help.

Sincerely,



Paul Hubbard III

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