Voice

Viewpoint

A New Idea for IRAs

by Paula H. Hogan, CFP, CFA, and John A. Herbers, Esq.

All financial planners work with clients who have IRAs (individual retirement accounts). Many of our clients have multiple IRA accounts, often with different custodians or issuers. Before the recent simplification of the "minimum required distribution" rules, these multiple IRAs created many headaches for our clients, for us, and for the other advisors, just in making sure the right amount was distributed from the IRAs after our clients turned 70 1/2.

Now that the minimum distribution rules have been streamlined, many of our clients still have multiple IRAs, and these multiple IRAs continue to create paperwork havoc. Wouldn't it be great if distributions could be further simplified, at least for our married clients? The creation of a "joint marital IRA" would do just that.

The time is right to allow—not require—spouses to consolidate their IRAs into a "joint marital IRA." Everyone would benefit:

- Investors and their advisors would stop wasting time trying to implement an overall family investment strategy through a portfolio needlessly split into several "buckets."
- Brokerage firms would gain efficiencies by aggregating accounts—and investors would have less paperwork.
- Married couples who aggregate accounts would save money on IRA maintenance fees, and they would more easily meet the account minimums of brokerage firms and mutual fund companies.
- The newly widowed could complete the IRA rollover with minimal effort, and would not have to deal with the hassle of an inherited IRA.
- Divorcing parties could split a joint account at least as easily as individual accounts.
- The joint marital IRA would be optional—couples could retain their separate IRAs if they choose.

The proposal holds up even as one thinks through the details. For example, the government would not lose income tax revenue because married persons already use a joint life expectancy table for mandatory distributions. There is a comparable result with estate taxation: the joint marital IRA would be non-taxable at the first spouse's death, and taxable at the second spouse's death, which is the same treatment under current tax law for single IRAs that are rolled over by the surviving spouse.

The joint marital IRA would be voluntary. Spouses with strong personal preferences about maintaining separate accounts could continue to do so. For example, couples in a second marriage, each of whom has children from a prior marriage, may want to keep separate IRAs. Likewise, spouses who differ greatly in age could make an individual choice between optimizing income tax deferral (by keeping separate IRAs) or minimizing administrative burden (by combining IRAs into a joint marital IRA).

Ideally, the joint marital IRA would be reversible so that couples could split the joint marital IRA back into separate IRAs. Of course, some basic tracing rules must be used to track relative contributions from, and distributions to, each spouse. But these rules could parallel the current rules that apply to individuals who must track deductible versus nondeductible contributions to their IRAs.

A joint marital IRA would recognize that spouses are a fundamental economic unit in our society, and that it is administratively burdensome to ignore that fact in our tax code. As advisors, we are uniquely positioned to see the appropriateness of this proposal, and to work to get the joint marital IRA adopted as law. Who better understands the frustration at the individual taxpayer level with the administrative burdens of retirement accounts? Who better than we can understand that brokerage firms need to streamline costs in order to keep delivering high quality service to our clients? Who better than we can understand the enormous, wasteful effort that we all exert to manage family retirement accounts as if the spouses were separate entities?

Let's take this one clearly positive, and easily implemented, idea and get it adopted as law. If you agree, here are several specific actions that you can take:

1. **Make your support of the joint marital IRA known;** join the FPA online discussion at www.fpanet.org.
2. **Lobby congressional staff.** Contact your representatives in Congress, especially the House Ways and Means Oversight Subcommittee, the committee charged with oversight of emerging tax law relating to retirement accounts, at (202) 225-7601.
3. **Spread the word.** Raise the proposal in your local study groups and professional societies. Contact a reporter. Talk with your colleagues. Ask your account custodian(s) to support the proposal.
4. **Inform your clients** that you and your peer advisors are working together on this proposal. Invite your clients to also send their comments to congressional leaders.

This year, let's make an industry-wide effort to get the joint marital IRA implemented.

Paula H. Hogan is the principal of Hogan Financial Management in Milwaukee, Wisconsin. She can be reached at Hogan@hoganfinancial.com. John A. Herbers is with Reinhart Boerner in Milwaukee, Wisconsin. He can be reached at jherbers@reinhartlaw.com.