

How to Turn \$2 Million into \$1.3 Million Overnight!

(Hint: Hire the Wrong Financial Advisor)

By Neal Frankle, CFP®

His story was hard to believe. An audience member at a lecture I'd just given, Richard told me how his bank's "financial advisor" had made every mistake I'd just covered in my talk--and believe me, there were many. Plus the so-called advisor had even thrown in a few of her own twists. By the time Richard finished listing the bank's litany of errors, I had to agree with him: It was a fiasco, a mess that expanded my already wide understanding of how bad things could get.

It was going to cost Richard more than \$700,000 in penalties, fines, and taxes to correct those mistakes and to avoid doing jail time. Clearly, the financial advisor had boldly made mistakes where no financial advisor had made mistakes before.

What happened? It started simply enough. Richard was the beneficiary of his ex-wife's \$2 million IRA. They'd been divorced for more than 6 years but remained friends, so they'd kept each other as the named beneficiaries on their respective IRAs. When Richard's ex-wife Barbara died suddenly, Richard was shocked to learn that he was to inherit more than \$2 million from Barbara's IRA.

With financial windfall in hand, Richard sat down with his financial advisor at the bank, Alana (not her real name). She was great at selling load mutual funds, and she was very pleasant. Unfortunate for Richard, she didn't know anything about retirement distribution regulations, and her ignorance was about to cost him a fortune. You see, even though Alana knew Richard and Barbara weren't married when Barbara died, she set up a spousal rollover account for Richard and proceeded to move Barbara's IRA money into that account. She thought this would

be a great idea.

She thought they'd take advantage of the IRS provisions allowing a spouse to rollover an IRA without paying taxes. The IRS has this little rule, though, that in order to be someone's spouse, you have to be married to that person. This ain't brain surgery, folks, but you do have to be paying attention.

Richard had no right to set up an IRA spousal rollover account from his deceased ex-wife, and I think any idiot could have figured that out. But any idiot didn't.

What Alana helped Richard do was break the law, and as a result he became subject to more than \$700,000 in fines, penalties, and taxes. The only thing Richard could do to remedy the problem was to write that big check to the IRS. He paid \$700,000 to the IRS that he wouldn't have had to if only his advisor had known what she was doing.

Why am I sharing this story with you?

Because it could happen to you very easily. For the past several months, I've written about how you can keep deferring taxes on your IRA even after you're dead. I've explained why doing this is so important, and I've outlined the greatest obstacles standing in your way. For purposes of review, let's say you have a \$1 million IRA when you pass away. If your non-spouse beneficiaries take all the money out and pay taxes upon your death, they might net \$600,000 after everything is said and done. If they continue to defer the tax and take only the minimum distribution from the account, they'll be able to take out over \$3 million over their lives (depending on their age at the time of your death). This is the greatest financial gift the IRS

will ever give you, and I want you to make sure your financial advisor doesn't blow it.

Your financial advisor may be good at helping you grow your money now, but what good is growing your money at even 30 percent per year if, at the end of the day, you give up 80 percent of your net worth in taxes, penalties, and fines? This happens often because most financial advisors are not well-schooled in the intricacies of retirement distribution planning.

How can you avoid all this? Simple. Just ask your financial advisor the following four questions:

1. What is an inherited IRA?
2. What are the benefits and drawbacks?
3. Who can set up an inherited IRA?
4. Who can and can't set up a spousal IRA?

You don't have to know the answers before you ask, but you should. (You'll know if the answers are all bluster or if the person is just clueless.) If you'd like my white paper with the answers to these questions, send me an e-mail. Otherwise, stay away from advisors who don't understand the basics when it comes to retirement distribution plans.

Neal Frankle is the author of Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity. He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, do the same for their clients. To receive a free report on how to find the best funds, contact him by sending e-mail to Neal@WealthResourcesGroup.com.