Honey, Our Retirement Fund is Shrinking

By Reg P. Wydeven
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When I was a kid, one of my favorite books was 'Ira Sleeps Over.' The story focuses on Ira's trepidations as he prepares to sleep over at his friend Reggie's house. The tale explores Ira's dilemma of the excitement over the prospect of a first sleepover at a friend's house and his fear of ridicule for not being able to sleep without his teddy bear, Tah Tah.

Ira's fears are alleviated when Reggie pulls out his teddy bear right before bed. As a little guy who couldn't sleep without his plush Grover, I loved this story. In fact, I remember making my mom, dad and sister read it to me whenever possible. In addition to the dependence upon a stuffed animal, I loved hearing a story with one of the main characters having the same name as me. Actually, it was the only book I knew of that had a character named Reggie. Come to think of it, it was also the only book I can think of having a character named Ira.

That's why I smile every time I receive my quarterly statement for my Individual Retirement Account. I see the "IRA" after my name and I fondly recall my favorite childhood story. Then I open the envelope and look at my balance and my nostalgia is quickly replaced with crippling depression.

Thankfully, because of some law changes, not all the news for IRAs these days are bad.

Obviously, in a recession, many charities that count on donations are struggling as donors tighten their purse strings. To combat this, the bailout bill, officially known as the Emergency Economic Stabilization Act of 2008, allows IRA owners who are at least 70½ years old to transfer up to $100,000 to a charity in 2009 without having the amount included in their gross income.

In a recession, many investors counter-intuitively cash out after stocks have already sunk when they should be buying since prices are low. In addition to encouraging charitable donations, the government is also encouraging taxpayers to keep their money invested. The Worker, Retiree, and Employer Recovery Act of 2008 waives the requirement that taxpayers take their required minimum distribution in 2009. However, the WRERA does not apply to taxpayers who turned 70½ in 2008 but waited until 2009 to take their RMD.

Starting in 2010, the WRERA also forces non-spouse beneficiaries to transfer retirement plans from the former owner's employer to an IRA at a bank, brokerage or mutual-fund firm.

Finally, it's safe to say that the recession has been pretty tough on financial institutions, many of which manage IRAs for people. IRA owners under age 59½ typically have to pay a 10% penalty for making withdrawals. The IRS waives the penalty if the taxpayer makes the withdrawals in substantially equal periodic payments, or SEPP.

Last year the IRS waived the 10% penalty for two taxpayers who failed to take the SEPP because the financial institutions that were the custodians of the IRAs actually failed to make the withdrawals. With all of the mergers and buyouts of banks, this may become a common occurrence, so the IRS decided not to punish the taxpayer.

Even though these rules are great for my IRA, my balance is still receding faster than my hairline. To compensate, I've started sleeping with my Grover again.