

# Douglas Capital Management, LLC

## FAQ: Retirement Accounts

DCM clients have asked many good questions about retirement accounts. Here are the answers to some of the most common questions.

### **Can I merge different types of retirement accounts such as 401Ks from previous employers, Rollover IRAs, SEP IRAs, Roth IRAs, and Traditional IRAs?**

In many cases you can. The IRS calls this "Recharacterization". For more information, follow [this link](#).

There are now 11 different types of IRAs recognized by the IRS. Those are described [here](#).

If you are unsure about whether you can merge IRAs in your particular case, call the IRS, or discuss it with your accountant.

### **Do I need to merge the different types of IRAs?**

No, as long as the account balance is greater than 50K, DCM will manage your account through Interactive Brokers.

### **Can DCM manage my 401K?**

Your employer's plan may offer an in-service rollover option. If you are 59 or older, you may be able to transfer some or all of the funds in your 401k plan into a rollover IRA with Interactive Brokers. Douglas Capital Management, LLC can manage your account using either the focused trading style or the aggressive trading style if you are a qualified investor.

### **What is your opinion of Roth 401Ks?**

[Here](#) is a good reference on the Roth 401K:

Roth 401Ks makes sense if you want to contribute more to a 401K. Because you are contributing after-tax dollars rather than pre-tax dollars you are effectively making a larger contribution each year.

### **Can I fund a SEP-IRA?**

Even if you are employed full-time for someone else, you can most likely fund a SEP-IRA if you have self-employment income that you would report on Schedule C. SEP-

IRAs are simple to set up, and they are a good way to route more funds into tax-sheltered accounts. Here are some articles on SEP-IRAs.

<http://taxes.about.com/b/a/257220.htm>

<http://www.trustetc.com/irs/irs-news.html>

<http://www.investopedia.com/university/retirementplans/sepira/sepira2.asp>

### **What is the maximum amount I can put into a Roth IRA?**

Your maximum Roth IRA contribution depends upon your income and how you and your spouse file your taxes. Provided you have maxed out your contributions in your employer-sponsored retirement plan, it is a good idea to contribute as much as you can to a Roth-IRA. [This link](#) provides guidelines for your maximum contributions to a Roth-IRA.

### **How can I start a defined benefit plan?**

Defined benefit plans are more difficult to set up than many other types of IRAs, but they can offer tremendous tax advantages. You will need a third party administrator to help you establish a plan. Douglas Capital Management, LLC can manage the funds in your plan once it is established. DCM does not have any direct experience with any third party administrators. Two third party administrators who have been recommended by clients of DCM are:

Nelson Yeung: Office Number: 626-913-2872 x117  
Arthur Leaffer: Office Number: 415-492-1777

### **What are the estate tax implications if I have a balance in my IRA when I die?**

The general rule is that once you and your spouse reach 70 ½, you will need to take required minimum distributions. When one of you passes away, the other can transfer the IRA balance and take only required minimum distributions on the consolidated account. When both of you have passed away and the estate goes on to your heirs, your heirs will also be required to take minimum distributions, but because your children (and possibly your grandchildren) are relatively young, the minimum distributions are relatively small each year. For traditional IRAs, the distributions are taxed like ordinary income. For Roth IRAs (as long as they are 5 years old), the distributions will not be taxed. These two links provide more details:

Traditional IRAs

<http://www.newyorklife.com/cda/0,3254,14923,00.html>

Roth IRAs

<http://www.fairmark.com/rothira/inherit.htm>

### **What type of retirement plan to you recommend for self-employed people?**

The best type of account depends on how much income you can defer:

For those who can defer less than 20% of their self employment income and must start with less than five thousand dollars, a SEP-IRA with Fidelity is an excellent account to open. The following link describes the details for how to establish a SEP-IRA with Fidelity.

<http://personal.fidelity.com/products/retirement/getstart/newacc/sepira.shtml.cvsr?refpr=sb004>

For those who can defer less than 20% of their self employment income and start with five thousand dollars or more, a SEP-IRA with Interactive Brokers is an excellent account to open. The following link describes SEP-IRAs with Interactive Brokers.

[http://individuals.interactivebrokers.com/en/p.php?f=accountConfig&p=i&ib\\_entity=llc](http://individuals.interactivebrokers.com/en/p.php?f=accountConfig&p=i&ib_entity=llc)

For those who can defer more than 20% of their self employment income and less than fifty thousand per year, a Self Employed 401K with Fidelity is a very good account to use. The following link describes how Self Employed 401Ks work with Fidelity.

<http://personal.fidelity.com/products/retirement/getstart/newacc/keogh.shtml.cvsr?refpr=sb006>

For those who can defer more than fifty thousand dollars per year of self-employment income, Defined Benefit plans are often the best option. These plans are more complicated to establish but their tax benefits can be enormous. If you are interested in establishing a Defined Benefit plan in the future, please let me know. I will refer you to accountants and third-party administrators who can help you through the process.

Still have questions? Please contact us anytime! We look forward to hearing from you. Send an email to [brettdouglas@dcm-llc.com](mailto:brettdouglas@dcm-llc.com).

Copyright Douglas Capital Management, LLC. All rights reserved.

4 Windsong Way  
Bloomington, IL 61704  
ph: 309-807-5637

fax: 309-412-1001

[brettdouglas@dcm-llc.com](mailto:brettdouglas@dcm-llc.com)