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A free newsletter for estate planners, from Natalie B. Choate

Should I combine all my IRAs or keep multiple separate IRAs?

One big IRA is more convenient than multiple little IRAs. With all IRA money kept in a single account, you have just one account statement, calculate your annual MRD just once, keep track of just one beneficiary designation form, etc. There can be advantages to multiple IRAs; the question is whether these advantages are worth the extra effort of maintaining multiple accounts:

Multiple beneficiaries: If you are leaving your IRA to multiple beneficiaries, and you want each beneficiary to use his own life expectancy to measure MRDs (rather than having all beneficiaries be stuck using the oldest one's life expectancy), you can guarantee such "separate account treatment" by having separate IRAs, one payable to each beneficiary. It may not be worth the trouble though, especially if you have to keep moving money from one IRA to another to keep them all equal. If a single IRA is left to multiple beneficiaries in percentage shares, they can divide it up AFTER your death and still qualify for separate accounts treatment. So the only reason to divide it up while you're still alive is if you are worried your beneficiaries will not get the division done on time after your death (the deadline is the end of the year after the year of death), or maybe if they hate each other.

One-per-year rollover limit: Jack has one IRA, worth $1 million. Jill has five IRAs (A-E), each worth $200,000. If Jack takes $100 out of his IRA on Date 1, and rolls it back into the same IRA tax-free, he is forbidden to roll over any other distribution from his IRA for 12 months after Date 1. If Jill takes $100 out of her IRA "A" on Date 1, and rolls it back into IRA "A" tax-free, she can not roll over any other distributions *from IRA "A"* for a year; but she CAN roll over a distribution from any of her OTHER IRAs within the 12-month period, because her other IRAs were not involved in the first rollover. Illogically, having multiple IRAs makes it possible to do several IRA-to-IRA rollovers within a 12-month period, if you think you might ever need that option.

Recharacterization easier: A contribution to a traditional (or Roth) IRA can be "recharacterized" as a contribution to the other type of IRA until the due date of the return for the year of the contribution. The recharacterized contribution (including earnings thereon) must be transferred, from the account it was put into, into the other type of account. This is easy if the contribution was made to a brand-new IRA that contained no other funds. If the contribution was made to an *existing* account, you have the hassle of figuring out the earnings on the contribution by a complicated formula. This suggests we should all keep each year's annual IRA contribution in a brand-new separate IRA, until the deadline passes for recharacterization. But then we would have a different hassle—annually opening a new account (for each year's contribution) and then closing it and combining it with the rest of our IRA money after the deadline. So pick your poison!

Conduit IRAs: At one time, it was advisable to keep an IRA that contained rollover(s) from a qualified retirement plan (QRP) separate from other IRAs. Keeping the QRP money in such a separate so-called "conduit IRA" preserved the option to roll it back into a QRP. Now *any* IRA money can be rolled into a QRP, but the conduit concept isn't dead. For example, an employee born before 1936 can still use "10-year averaging" for a lump sum distribution from a QRP, but not if the QRP contains rollovers from a nonconduit IRA. Also, Andy Fair, Esq., points out that a conduit IRA *might* be better protected than a "regular" IRA under bankruptcy and debtors' rights laws that distinguish between QRPs and IRAs. So, keep your QRP rollovers in a separate IRA from your regular contributions if you wish to preserve these (or some now-unknown future) benefits.