Briefly Noted

It Can Make Sense to Have Several IRAs

While it is a good rule of thumb to keep the investing process relatively simple, tax laws, estate planning and investment choices can limit the amount of simplicity an investor can get away with. In some cases, adding some complexity can actually work to an investor's advantage. Individual retirement accounts are one such example.

Each type of IRA has its own rules. Some can be converted from one type of IRA to another, such as converting a traditional IRA into a Roth IRA. A person desiring to use both a traditional and a Roth IRA must set up separate accounts with a broker or mutual fund company. A 401(k) can be rolled over to a traditional IRA tax-free. It can also be rolled into a Roth IRA, though taxes will be charged on the conversion. An inherited IRA must be kept in a separate account.

The federal bankruptcy code gives an incentive for owning more than one IRA. Rollover IRAs [comprising money rolled over from a 401(k) or similar type of employer-sponsored retirement plan] have an unlimited exemption in the event of a bankruptcy. The exemption for "contributory" IRAs, though generous, is not unlimited. Thus, having more than one IRA can offer advantages in terms of protection against creditors.

Estate planning also favors holding more than one IRA. Separating intended amounts to be bequeathed into different accounts allows each beneficiary to make their own decisions without impacting the other heirs. If the intended beneficiaries include humans and organizations (e.g., a charity), having separate accounts can simplify matters. Doing so will allow your heirs to use a different payout method than the charity.

Any investments at risk of violating the prohibited transaction rules should be placed into their own IRA. Investments found to violate the prohibited transaction rules disqualify the entire account. By putting such investments into their own silo, other IRA investments will not be affected.

The Securities Investor Protection Corporation (SIPC) insures accounts up to $500,000 ($250,000 for cash). A traditional and Roth IRA account would each be protected up to $500,000.

Source: "How Many IRAs Should You Have?," Natalie Choate, Morningstar.com, May 14, 2016; "Investors With Multiple Accounts," SIPC.org; "Rollover Chart," IRS.gov.

Growth in Corporate Cash Balances Isn't Negative

The cumulative cash balance of non-financial companies in the S&P 500 index totaled an estimated $2.1 billion as of October 31, 2015, according to data compiled by J.P. Morgan. Though large, the majority of the cash is held by a small number companies. The 50 non-financial S&P companies account for 70% of the total cash. The 10 largest cash holders account for 40%.

There is not a single reason for the large cash balances, according to authors Mark Zenner et al. Rather, there are many different reasons, some of which contradict commonly held beliefs.

Among the observations made by Zenner et al. are:

- **Cash Isn't Just Growing Offshore:** During the three-year period of 2012 through 2014, cash held domestically by S&P 100 companies has increased by 3% annually. Though foreign cash balances have grown at a higher 15% rate, foreign companies have also boosted their cash balances.
- **Business Risk Is Playing a Role:** Companies whose stocks experience above-median levels of volatility hold 50% more cash than companies with less-volatile stocks. This may imply greater conservatism on the part of executives following the 2008 financial crisis and in recognition of other company-specific risks.
- **Corporations Are Still Investing in Themselves:** Even with the buildup of cash, capital expenditures, spending on research & development and spending on merger & acquisitions increased at a 7% to 8% rate between 2011 and 2014.
- **Executives Are Managing the Impact of the Larger Cash Balances:** The 25 largest holders of cash have increased their use of longer-term investments by 15% in recent years. This is nearly double the 8% growth rate for other non-financial S&P 500 companies. This said, the majority of cash is still in bank and money market accounts.
- **Debt Levels Are Mostly Unchanged:** Companies that have avoided repatriating overseas cash have raised debt in the U.S. to accommodate domestic cash outlays, such as dividends and share buybacks. This has been offset by higher overall cash balances. As a result, aggregate leverage levels are near the same levels as five years ago.

Source: "Are U.S. Companies Really Holding That Much Cash—And If So, Why?," Marc Zenner, Even Junek and Ram Chivukula, Journal of Applied Finance, Volume 28, Issue 1, Winter 2016.