January 2020 YCPASR Member Benefits and Services (MB & S) Newsletter Input

There is no PASR MB & S news to pass along, but passage of Public Law 116-94, better known as the Setting Every Community Up for Retirement Enhancement (SECURE) Act could affect some YCPASR retirees who may have been fortunate enough to save additional funds in Individual Retirement Accounts (IRAs) and 403(b) plans for retirement. On December 20, 2019, the US Senate passed a $1.4 trillion dollar spending deal that included the SECURE Act retirement legislation. It affects many aspects of retirement that are sure to have an impact on the middle class and their beneficiaries as of January 1, 2020. In retirement and/or nearing the magical age of 70, these changes are something that you will want to become familiar with. Here are some of the changes that will have the biggest impact:

Required Minimum Distribution (RMD) Changes

Through 2019, retirees have been required to begin taking Required Minimum Distributions (RMDs) from their IRAs ND 403(b)s starting at age $70^{1/2}$. In fact, this is a common strategy in many people's retirement planning – wait until age $70^{1/2}$ before taking distributions from these plans. If you find yourself in this camp, you now have the option of postponing your first RMD another year and a half until age 72.

Unsure if you need to take begin taking an RMD in 2020? If you turned $70^{1/2}$ in or prior to 2019, you had to take your first RMD in 2019 (or by April 1st if you turned in 2019), and must continue doing so. But, if you don't turn $70^{1/2}$ until 2020 or later, you have the choice to delay taking your RMD until the year in which you turn 72. These are the types of plan accounts that normally require an RMD:

- Traditional IRAs
- 403(b) plans
- 401(k) and 457 plans

One account that is still exempt from RMDs (for the owner) is a Roth IRA.

End of the Stretch IRA

The stretch IRA has been a great planning tool that allowed beneficiaries to spread their tax burden out over their lifetime. This strategy allowed a beneficiary of an IRA to leave the assets in an inherited IRA account and spread the distributions out over their lifetime. This "stretching" of the IRA allowed many beneficiaries to pay less in taxes while allowing the assets in the IRA to continue to grow.

That's normally a pretty smart move. But, with the passage of the SECURE Act, beneficiaries now only have a 10-year time window to deplete all the assets from their inherited IRA. There are a few exceptions, though, for spouses, disabled individuals, minor children until they turn 18, and individuals not more than 10 years younger than the account owner.

Elimination of the Age Limit on IRA Contributions

In the past, anyone over the age of $70^{1/2}$ was prohibited from making contributions to an IRA. With the passage of the SECURE Act, this restriction has been eliminated. Beginning in 2020, a person with earned wages of any age can make contributions to an IRA.

529 Plan Changes

529 plans are accounts used to save and pay for educational expenses, but withdrawals from these accounts up to $10,000 can now be used to pay off student loans, as well.

Implications for…

<u>Inherited IRAs</u>
As described above, the biggest change resulting from the SECURE Act is the elimination of the stretch IRA.

Stretch IRAs have been a great way for beneficiaries to make the most out of IRAs that they inherit from both an investment and tax-planning standpoint. The new law will force beneficiaries of IRA accounts to deplete the IRA in a 10-year time period versus drawing it out over their lifetime.

One of the biggest advantages of doing a stretch IRA is the ability to stretch the tax burden out over a large number of years. This may be easiest to understand by looking at an example.

Joe Senior dies and leaves his $500,000 IRA to his daughter Jan. Jan's Adjusted Gross Income (AGI) is $50,000.

In the past Jan could stretch the payments over her lifetime and take an annual payment beginning around $25,000 (approximately for illustrative purposes). If Jan were to take out all the funds at once, she could end up paying a federal tax rate of 35% on the majority of the $500k (plus any applicable state income taxes). But, a distribution of $25,000 could allow her to stay in the 12% federal tax bracket.

Fast forward to 2020 and Jan will have to deplete the account over a 10-year time period. This will force her pay a higher percentage of income taxes than she would have in the first scenario.

These changes make saving and planning even more important. For retirees that don't plan on taking distributions until they are required, and plan on bequeathing assets to their heirs, proper planning is now **even more** important.

<u>Estate Planning</u>
If you don't plan on taking distributions until age 72, Roth conversions have never been more important for long term planning.

Roth IRAs are a phenomenal estate planning tool and look even more attractive with the implementation of the SECURE Act. The Roth IRA still doesn't force you to take distributions at any age and passes on to your beneficiaries income tax free.

When planning to pass on assets, it's important to consider both your tax bracket and your beneficiary's tax bracket. Depending on the numbers, it could make sense to do a Roth conversion and maybe even take distributions and invest in a taxable account.

The bottom line is that there are a number of possible scenarios that could be implemented, but I believe the worst course of action is taking no action at all.

<u>Make the Most of What You Have</u>
Nothing in the SECURE Act will have major, immediate impact on current retirees; however, if you are concerned about maximizing your assets and passing your wealth on efficiently, then proper planning has just jumped to the top of the priorities list.