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SECURE Scope | Edition 2

Next Steps: Conversations and Strategies

President Trump signed the SECURE Act on December 20, 2019. The Act eliminates the right of non-spousal beneficiaries to stretch RMDs over their lifetimes. Exceptions remain for disabled, chronically ill or minor beneficiaries. Generally, non-spousal beneficiaries of an IRA owner or plan participant who died after 2019 must withdraw their share of any IRA or qualified plan benefits by December 31 of the 10th year after the death. The new rule leaves nonqualified stretches unchanged.

Focus on Designations and Distributions

1. Review Beneficiary Designations

If a trust is listed as a beneficiary of a client's IRA, it is imperative that the trust document be reviewed by the client's attorneys and tax professionals immediately. While see-through trusts are still permitted under the Act, they may no longer work as originally intended and most likely will not accomplish the client's goals.

All IRA beneficiary designations should be reviewed.

- *Evaluate plans for spousal rollovers.*
  - Spousal beneficiaries can continue to rollover any qualified account into their own account.
  - But, does the spouse need all of the funds in the IRA? Does the spouse have her own IRA? Consideration should be given to possibly leaving some IRA funds to the spouse and some to the children at the first death. This could potentially give the children two 10-year periods – one when each parent dies.
- *Increase the number of beneficiaries.*
  - May not be practical for all IRA owners.
  - Clients with children and grandchildren may want to spread out the tax liability over more taxpayers and possibly taxpayers with lower incomes.
- *Reconsider which assets are left to which beneficiaries.*
  - Leave IRA and qualified plan funds to lower-income beneficiaries and leave other non-taxable assets to high-income beneficiaries.
  - Use life insurance to equalize estate, possibly spending some IRA and qualified plan dollars to fund such life insurance.

2. Accelerate (versus Delay) Distributions from IRAs and Qualified Funds

- Delaying distributions can lead to higher overall RMDs and potentially a higher tax bracket in retirement and a greater tax burden for beneficiaries.
- Use lifetime spending of IRAs and qualified plans to fund tax-free legacy options.
  - Life insurance can be an extremely tax-efficient method for leaving a legacy for beneficiaries.
    - Death proceeds are generally received tax-free.
    - Policy cash values can be received on a tax-advantaged basis during lifetime.*
    - Contribution limits are determined by underwriting and not the Internal Revenue Code.
    - No 10 percent penalty imposed on taxable distributions before the age of 59½.*
    - Can potentially access living benefits for chronic illness and terminal illness.
    - Can be used with an irrevocable life insurance trust if estate taxes are an issue.
  - Roth conversions can also provide a tax-free legacy to beneficiaries.
    - Avoid large jumps in brackets – utilize bracket bumping and convert up to the lower tax bracket limits (10 percent, 12 percent, 22 percent) each year.
    - Income taxes are on sale – income tax rates are reduced through 2025.
    - Must consider effect of higher adjusted gross income on capital gains, taxation of Social Security benefits and Medicare premiums. Thus, optimal for pre-retirees and retirees in gap years (i.e., years between retiring and claiming of Social Security benefits).
    - Caution – consult with a tax professional as Roth IRA conversions can no longer be recharacterized or undone.

Act on Important Contact Opportunities

Take advantage of the changes made by the SECURE Act to reach out to your clients. Help ensure that their retirement and legacy plans remain on track for them and their beneficiaries.

Have a SECURE Act question? Contact us. Or visit WSFinancialPartners.com.

*Assuming the policy is not a modified endowment contract.

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