The Demise of the Stretch IRA

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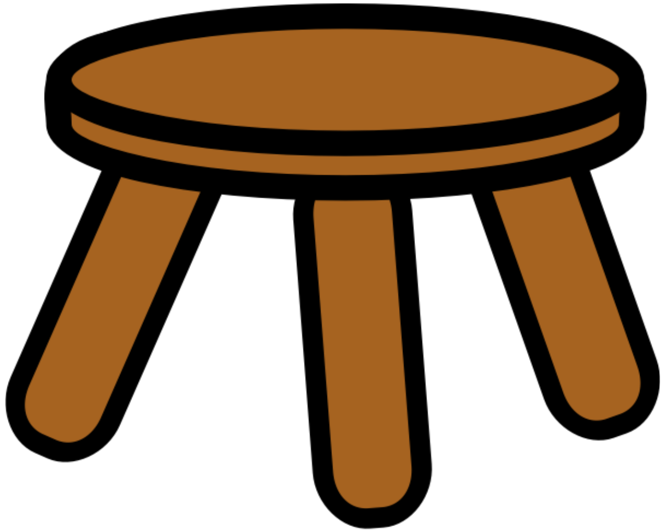
SECURE Act

Bipartisan bill signed 12/2019
Effective January 1, 2020

Setting
Every
Community
Up for
Retirement
Enhancement



- The three-legged stool of retirement has broken.
- Troubled US Retirement System (Social Security) has been widely acknowledged to be insufficient.
- Most workers need to supplement Social Security with personal savings.
- Drafted to address Americans’ difficulty in saving for retirement.
- Significant legislation that changed retirement savings protocol that positively affecting IRA owners, QRP (401k) participants, and employers.

KEY TAKEAWAYS for IRAs:

1

Remove maximum age limits on contributions

2

Raise required minimum distribution (RMD) age to 72

3

Add qualified birth or adoption withdrawals to list of early distribution penalty tax exemptions

4

Revamp & Redefine the distribution rules for beneficiaries and successor beneficiaries

Direct Effects to the IRA Owner

PROS

- Continue to make contributions, if eligible
- Delay RMD until 72
- Additional early distribution penalty free exemption
- QCDs continue to be allowed beginning at age 70 ½

CONS

The SECURE Act allows for an IRA owner to contribute longer, grow investments longer, and continue to withdraw tax-free for charitable giving.

- Retirement savings protocols are estimated to total $15.7 billion in lost revenue.

- To pay for these changes, the government removed the stretch IRA estate-planning strategy that permitted non-spouse beneficiaries of IRAs to spread disbursements from the inherited money over their lifetime. The new limit is within 10 years of the death of the original account holder

When did the IRA owner die?	Class of Beneficiaries:
• Before January 1, 2020 (Stretch rule applies) • After December 31, 2019 (10 Year rule applies)	• Pre-SECURE Spouse – treat as own or stretch non-spouse - stretch non-human – 5 Year Rule • Post SECURE Eligible Designated Beneficiary Designated Beneficiary Non-Designated Beneficiary

Eligible Designated Beneficiary

Surviving Spouse

Individual not more than 10 years younger than IRA owner

Minor child of IRA owner (until reaching age of majority, then 10 Year Rule applies)

Disabled Individual

Chronically Ill Individual

Designated Beneficiary

Pre-SECURE (Before 2020)

- Non-spouse beneficiaries allowed to take distributions from the IRA based on the single life expectancy.

Post SECURE (After 2019)

- Designated Beneficiaries must deplete IRA by 12/31 of the 10^{th} year following year of IRA owner's death.

Example: Peter died in Feb 13, 2021. His son, Paul, must deplete the entire IRA by 12/31/2031.

Beneficiary/Successor Beneficiary in a Post SECURE Act World

Pros

Cons

Post 2019 beneficiaries – Designated Beneficiaries must use the 10 Year Rule

Successor beneficiaries must "step into the shoes" of the beneficiary and complete the 10 Year term.

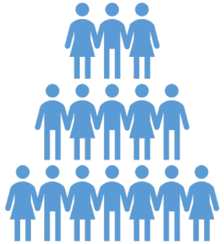
Successor beneficiaries of Pre-2020 beneficiaries must deplete the IRA according to the 10 Year Rule

Why is the 10 Year Rule Problematic?

Pay the income taxes due for distributions over a shorter period—often at a higher rate.

Growth accruing on the deferred amounts will be considerably reduced.

Loss of multi-generational deferred growth facilitated by a Stretch IRA



IRA no longer serves as a vital-estate planning tool for those aiming to transfer wealth to succeeding generations.

Strategies to help minimize the taxman's impact and transfer wealth in the post-SECURE Act world

Identify

- Identify your beneficiaries

Make

- Make gifts
  - Outright to loved ones
  - To Section 529 accounts
  - For college tuition or medical bills

Donate

- Donate to charities (QCD)

Purchase

- Purchase life insurance/Use an Irrevocable Life Insurance Trust

Initiate

- Initiate a Roth Conversion

Create

- Create a Charitable Remainder Trust

Use

- Use Disclaimers in estate planning documents

Questions

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