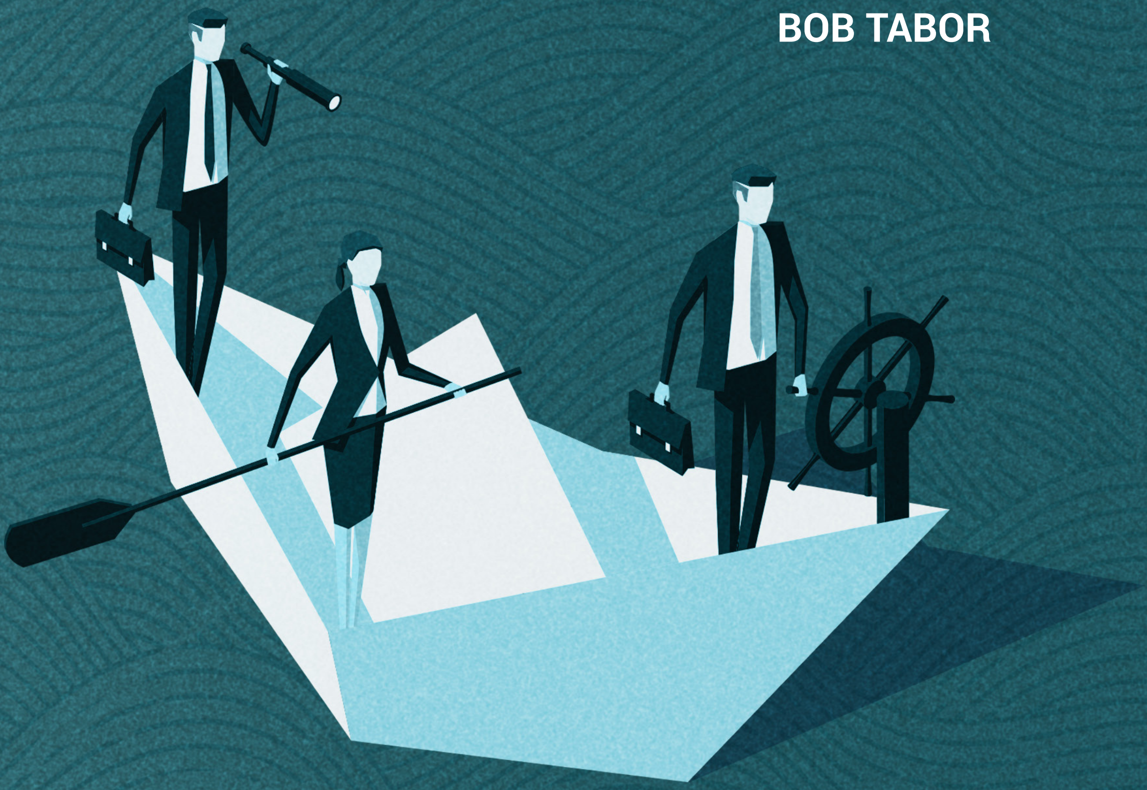
ON COURSE

Does the New SECURE ACT Affect Your Retirement Strategies?

BOB TABOR



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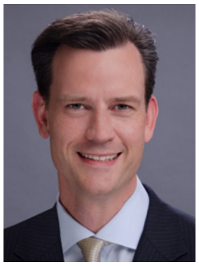

BOB TABOR

Vice President

RICHARD P. SLAUGHTER ASSOCIATES, INC.

> **Last December, the SECURE Act was passed** with the objective of increasing access and participation in employer-sponsored retirement plans – like 401(k)'s and 403(b)'s – and expanding retirement savings opportunities. An acronym for Setting Every Community Up for Retirement Enhancement, the Act also installed new requirements for distributions from retirement accounts.

Like most pieces of legislation, reading through the Act can be confusing and hard to identify how any of the provisions relate to your financial situation. Given the freshness of the legislation and this being our inaugural issue of On Course – a publication aimed at curating relevant financial topics and presenting the details and strategies that are relevant to you – this felt like a perfect launching point for this new decade.

For most of our clients, the more important parts of the SECURE Act reside in new rules for withdrawal requirements for IRAs. The new rules impact:

- Required Minimum Distributions (RMDs) from your Traditional, SIMPLE and SEP IRA
- Withdrawals requirements from inherited IRAs

Until now, the rules for RMDs from your retirement accounts stated you must withdraw a percentage of your balance after you turned 70.5 years of age.

OLD LAW: Your initial Required Minimum Distribution (RMD) must be taken by April 1 of the year after you turned 70.5 years old, and for each subsequent year, you must take another RMD by 12/31.

NEW LAW: Beginning in 2020, the SECURE Act pushes out the starting age for required distributions by a year and a half. Now, your first RMD must be taken by April 1 in the year after you turn 72 years old.

"By converting some or all of your Traditional IRA to a ROTH during the years your income is at its lowest... you could pass along those assets to the next generation tax-free."

Unfortunately, those who turned 70.5 in 2019 or earlier will still be required to make their first RMD by April 1, 2020 and/or continue to take RMD withdrawals as outlined by the 'old' law.

This new rule makes tax planning even more important, especially if you are taking advantage of years of lower earned income to convert your IRA assets to a Roth. The rule could give you more time to accomplish this strategy and push down the tax burden at RMD age even more.

Another impact of the SECURE Act on IRAs involves withdrawal requirements for inherited IRAs and qualified employer plans with designated beneficiaries.

OLD LAW: When inheriting a Traditional or Roth IRA from a non-spouse you may have had the opportunity to stretch the required distributions over your lifetime and gradually draw down your IRA. This rule allowed for smaller required distributions and was a great estate planning tool with the benefit of reduced taxes.

NEW LAW: Many are calling this rule in the SECURE Act the "Death of the Stretch IRA." If you inherit an IRA or 401(k) from a non-spouse after 1/1/2020, with a few exceptions, the account must be drained within ten years after the date of inheritance.

If you are a beneficiary of a non-spouse who passed away in 2019 or before, your withdrawals will continue as before and you will see no change to your required withdrawal schedule.

There are some exceptions in the Act. If the IRA beneficiary is one of the following, the old rules still apply:

- Surviving Spouse
- Minor Children (until age 18, then the 10-year rule applies)
- Disabled Individuals (under the IRS rules)
- Chronically Ill Individuals
- Non-spouse individuals not more than 10-years younger than the IRA owner

This inheritance rule, combined with the delay in RMD requirements to age 72, could make the strategy of Roth conversions even more valuable to you, especially if you can pass along your Roth IRA to the next generations. This strategy can be discussed more in-depth on an individual basis, but generally speaking, those inheriting your Traditional IRA will likely pay tax on required distributions at a higher rate than you will.

At the time of inheritance, the beneficiary may be at their peak earning years and consequently at a higher income tax rate. The additional income from required IRA distributions could cause your beneficiaries to pay a much higher tax on the distributions than you would.

By converting some or all of your Traditional IRA to a Roth during the years your income is at its lowest, which is typically the years after retirement and

ABOUT RICHARD P. SLAUGHTER ASSOCIATES, INC.

Richard P. Slaughter Associates is a leading wealth-management firm specializing in delivering tailored strategies as a fiduciary for high net worth individuals, families and businesses. Slaughter Associates constructs a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management while coordinating with tax, insurance and estate professionals. The result is a holistic approach—unique in the financial industry—that generates a clear path to the individual financial goals of the client. Founded in 1991 in Austin, Texas, Slaughter Associates was among the first fee-only firms in the nation, a fiduciary status that allows it the freedom to provide advice that is always in the best interests of the client. Slaughter Associates is a NABCAP Premier Advisor, recognized for its commitment to maintaining top business standards, first-class financial-management capabilities and dedication to preserving transparency in the financial services industry.

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before RMD age, you could pass along those assets to the next generation tax-free.

One other consideration with the elimination of most "stretch" IRAs comes into play if you have created a trust to capture IRA assets that has conduit provisions. Without getting into the technicalities, we recommend contacting your estate planning attorney to see if a revision to your trust is needed.

These two aspects of the SECURE Act are the most impactful to most people, but other key changes should be noted. They include:

- Repeal of the age restriction on contributions to Traditional IRAs
- Expansion of qualified distribution of 529 Accounts to include up to $10,000 in student loans
- Penalty-free withdrawal from IRA or qualified plan for "qualified birth or adoption" of up to $5,000
- Qualified Charitable Distributions (QCD) of up to $100,000 directly from your IRA can still be made after reaching age 70.5 (for now).
- Multiple changes to company-sponsored retirement plans (look for details on these changes to be covered in a separate article)

It's important that strategies surrounding your personal IRA(s) are discussed with your wealth advisor and an overall planning strategy is determined to ensure you are adhering to and making the most of the new law.

Richard P. Slaughter™ Associates

Bob Tabor
Vice President

Richard P. Slaughter Associates, Inc.
13809 Research Boulevard, Suite 905
Austin, TX 78750
Tel. 512-918-0000

invest@slaughterinvest.com
slaughterinvest.com