FEBRUARY 2021 portfolioadvisor.com

TRANSITIONS

HOW THE SECURE ACT IS CHANGING YOUR IRA

The SECURE Act was supposed to help strengthen retirement security, expand the accessibility of retirement accounts, and enhance the preservation of savings for every American citizen. Although touted as a retirement enhancement, it has done the opposite for your long-term planning.

Required Minimum Distributions

An important, but rather meaningless enhancement was to extend the age when you must take required minimum distributions (RMD) from 70½ to 72. This enables retirement accounts to grow tax-deferred for an additional 1½ years before taking the first RMD. How does this impact your retirement planning? Since the year-end valuation is used to calculate your next year's RMD amount, and we anticipate portfolio values to increase, this delay in distributions simply increases the size of ensuing distributions. As these RMD's are taxable events, this means we face ongoing higher taxes in our retirement years. One approach we have been using is to take distributions earlier than age 72. This really benefits someone over age 59 ½ that has a year of lower income, where we can then get the retirement distribution taxed at low tax rates.

Herb Diamant
PRESIDENT & SENIOR PORTFOLIO MANAGER

Stretch IRAs and Designated Beneficiaries

The most significant change in this legislation is the exclusion of the Stretch IRA. Prior to 2020, if an individual died and left their IRA to a child or a non-spouse beneficiary, the beneficiary would be allowed to distribute this inherited IRA over their remaining life expectancy. This strategy is often referred to as a Stretch IRA because it allowed beneficiaries to stretch the distribution of the asset accumulation of the retirement account out over a longer number of tax years while minimizing the taxes on this income. From a family generational

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perspective, these investment assets were used to provide for the future retirement needs of these beneficiaries.

Under the Secure Act, every IRA inherited by someone other than the spouse will have to distribute all the accumulated assets within 10 years of the owner's death. By forcing the dissolution of an inherited IRA, the U.S. Government collects a fair amount of income taxes in a short time frame from the beneficiaries. This is great news for the politicians who need taxes to fund their spending. However, this is exactly the wrong strategy for the United States. The concept of passing retirement accounts to others for their long-term retirement needs provides each beneficiary a nest egg for their retirement. Thus, the real appeal of the Stretch IRA is that it gives each beneficiary more financial independence. This financial security will reduce the pending pressures on Social Security payment system. This is a far more pressing matter to resolve than the collection of more taxes. When our politicians understand that restoring Stretch IRA's could make the social security system solvent twenty years down the road, I would then expect a repeal of this provision of the Secure Act. If your intentions are to leave your retirement plan to anyone other than your spouse, then specific retirement distribution strategies come into play that meet your family needs, and anticipate this needed change to Stretch IRA's.

The old adage about the only things certain are death and taxes is of course true. Being forward thinking about taxes should enable you and your family to enjoy a healthy life from your investment returns, with minimal taxes.

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