

CONSIDER THIS PROGRAM

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ON THIS SHOW:

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SHOW NOTES:

Topics Include:

- The Secure Act
- The Stretch IRA
- RMDs
- Your Parents: What to Consider

The Secure Act

At the end of the year, Congress passed an act called the Secure Act. You're going to hear it called The Security Act. It is designed to raise \$16.4 billion.

Where does that come from? It comes from tax revenue, because they've eliminated the Stretch IRA. Congress says \$15.7 billion will come directly from the loss of the Stretch. Over a 10-year period of time, 2019 to 2029, they expect \$16.4 billion to hit the coffers. We help take care of people who don't want to worry about their money.

It doesn't mean they didn't save. It just means they don't want to spend their retirement years studying what the market's doing and the changes in the tax code. They want to know what's going on and enjoy life. Let somebody who is professionally trained, do this. One of the things that happened in the old days, last year, if you were over 70 and a half, you could not contribute to an IRA. Now you can contribute to a Roth IRA, but if your income was too high, you couldn't do that.



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What kind of person over 70 and a half years old is actually working? You would be amazed at the number of people over 70 and a half that have a part time job, not because they need the money, but because they want to do something.

So what does this mean? If you can contribute to an IRA, you're over 70 and a half, and you have earned income, suddenly the backdoor Roth IRA option is available. A lot of people don't qualify to contribute to a Roth because their income is too high, because of social security, pensions, or other investments. Suddenly the backdoor Roth becomes an option. That is one big thing to be able to be aware of.

The medical expense world also changed. One of the changes that happened in the 2017 code was that the itemized deduction for medical expenses went from 7.5% of your AGI up to 10%. Suddenly that's back. It's 7.5% now, and that includes 2019. The higher your Adjusted Gross Income, the less you're able to deduct. Also, there's a 10% penalty exception.

The Stretch IRA

Have you ever wondered what a Stretch IRA really is? Eliminating the Stretch IRA is a challenge for many people. It was nothing that you would ever find in the tax code. It's something that we named in the tax code to help you understand what your options were. The concept of the Stretch was delaying the inevitable, meaning the IRS's ability to tax your dollars. Even though they're not 59 and a half, they didn't have to pay the 10% federal penalty, but they did have to pay taxation on the money that you pulled out of the account.


All of a sudden the Stretch IRA is now gone. It no longer matters how old you are when you die, it doesn't matter if you retired before or after the retired beginning date. The old rule was you had to take a Required Minimum Distribution, technically the year after the year you turn 70 and a half. But if you did that, you had to take two distributions in the following year: the first one being before April 1st. If somebody in your family passed away prior to December 31st of 2019 and was taking Required Minimum Distributions, the old rules apply. If you are already taking RMDs yourself or if you were over 70 and a half, the old rules apply. That means you're still taking an RMD.

What does that mean for the Qualified Charitable Distribution? If you're over 70 and a half, charitably inclined and you take the standard deduction, QCD is the biggest no-brainer I have ever seen in the tax code.



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If you're chronically ill as defined by the tax code, then you're exempt from the new rules that apply with inherited IRAs. If your beneficiary is not more than 10 years younger than the deceased, the rules wouldn't apply.

RMDs

The Secure Act has passed. It became effective January 1, 2020. What does this mean for your IRA, 401(k), or 403(b). First of all, what is a required minimum distribution? That's when you reach a certain age and the IRS is going to say, where's our money? You've deferred your taxes up until that point, so your required minimum distributions are the amount that you're forced to withdrawal and pay taxes on.

This is not an option. It's forced. The Required Minimum Distribution has been changed. It's been delayed. It's no longer 70 and a half. If you were already taking them, you have to continue. One of the things that got updated though is the life expectancy tables. They don't change technically until 2021, but what that essentially means is that you have the ability to take out less money as a Required Minimum Distribution. If something happened to you, your kids have to take out the Required Minimum Distributions under the old rule. They have to take out income based on their life expectancy. Typically people leave money directly to their spouses. We're going to see some people who make their kids their beneficiaries on their IRAs instead of their spouse which will allow them to have money come out over 10 years in a smaller amount.

Your Parents: What to Consider

Any tax deferred assets and even annuities, the growth will be taxed at ordinary income rates at the beneficiary's rate. You need to pay attention to three generations of tax returns.

Under the old rules, if something happened to mom or dad, we would have to take money out of their tax deferred accounts over their life expectancy. Life expectancies are averages. Today that rule is gone. Now we're forced to take all of that money out over a 10-year period of time.

We'll do a mock tax return for you and say, if mom and dad did a Roth conversion of \$50,000 or \$100,000, here's the amount of tax it would cost you today and here's the amount of tax your mom and dad would have to pay. You'll make a gift to mom and dad for that amount right out of your unified credit using your annual exclusion to pay the taxes. They'll do the Roth conversion and they'll make you the beneficiary of the Roth Conversion because you paid the taxes. If they need the money, they can still use the money.



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Disclaimer: Joseph Clark is a Certified Financial Planner™ and the Managing Partner of Financial Enhancement Group, LLC an SEC Registered Investment Advisor. He is the host of "Consider This" found on WIBC Saturday mornings from 6-7a.m. as well as three other Indiana-based radio stations. Joe has served as an Adjunct Assistant Professor at Purdue University where he taught the capstone course for a degree in Financial Counseling and Planning.

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