GFC FINANCIAL MANAGEMENT
"Financial Advice you Can Trust"

George F. Cerwin
CFP

Proactive Retirement Strategies Using The SECURE Act

In February of 2022, the IRS and Department of Treasury released 275 pages of proposed regulations to implement the **SECURE Act** (Setting Every Community Up for Retirement Enhancement), that was originally enacted in December 2019. The **SECURE Act** was designed to increase access to retirement plans and encourage retirement saving for many Americans. **It also changed the rules for retirement plan withdrawals after the original owner's death.** The proposed regulations clarify some of the outstanding technical questions on rules and definitions, including:

- The definition of Eligible Designated Beneficiaries;
- The Required Minimum Distributions (RMD) starting age for surviving spouse beneficiaries;
- New operating rules for retirement accounts payable to trusts;
- New rules which specifically allow greater latitude to design and administer IRA trusts without violating the "identifiable beneficiary" see-through trust requirements; and
- Providing Non-eligible Designated Beneficiaries are subject to both annual RMDs and the 10-year rule.

One of our goals as your financial professional is to keep you aware of any updates to fiduciary or tax laws that we feel may affect your unique situation. **Please remember, the SECURE ACT is a very complex area of tax code. Those who are affected by it should always seek the guidance of a financial and/or tax professional.**

The 10-year Rule

One of the biggest changes from the **SECURE Act** was the creation of the 10-year Rule.

PREVIOUS RULE

Most non-spousal beneficiaries were able to maximize tax-savings through a strategy known as the "Stretch IRA."

The Stretch IRA allowed beneficiaries such as children or grandchildren to take required minimum distributions from an inherited account based on their own much longer life expectancy.

NEW RULE

The **SECURE Act** makes most non-spousal inheritors deplete the value of all IRAs, Roth IRAs, and qualified plans within 10 years of the original owner's death. It also created three distinct categories of beneficiaries. Exceptions to the 10-year rule are Eligible Designated Beneficiaries.

For some beneficiaries, the Five-year rule may apply. Talk with a tax professional to assess your situation. Also, remember that the plan documents of a company retirement plan can override the 10-year rule.

Your objective should be to reduce your taxes and take advantage of tax deferral as long as possible.

Three Categories of Beneficiaries

Eligible Designated Beneficiary
(Can Still Utilize Stretch Distributions)

- Spouses
- Minor children of decedent until they reach age of majority
- Disabled individuals
- Chronically ill individuals
- Non-spouse beneficiaries who are less than 10 years younger than the decedent

Non-eligible Designated Beneficiary
(10-year Rule *and* Stretch Distributions)

If decedent died *after* Required Beginning Date

- Non-spouses or Eligible Designated Beneficiary
- Certain Trusts

Non-eligible Designated Beneficiary
(10-year Rule)

If decedent died *prior* to Required Beginning Date

- Non-spouses or Eligible Designated Beneficiary
- Certain Trusts

Non-designated Beneficiary
(5-year Rule)

If decedent died *after* Required Beginning Date

- Certain Trusts
- Charities
- Your Estate

Non-designated Beneficiary
(5-year Rule *and* Stretch Distributions)

If decedent died *prior* to Required Beginning Date

- Certain Trusts
- Charities
- Your Estate

The Elimination of "Stretch" IRAs & The 10-Year Rule

The "Stretch IRA" for all has been eliminated. The SECURE Act made the Stretch IRA only available to Eligible Designated Beneficiaries. If the original owner of an IRA passes away after December 31, 2019, fewer beneficiaries will be able to extend distributions from the inherited IRA over their lifetime. Many will instead need to withdraw all assets from the inherited IRA within 10 years following the death of the original account holder.

The proposed regulations clarify post-mortem distribution requirements. A "Non-eligible, qualified Designated Beneficiary " is subject to the 10-year rule. If death occurred prior to the Required Beginning Date (RBD; age 72), no annual RMDs are requires; the account merely must be fully distributed by year-10. However, if death occurred after the RBD, the beneficiary must take distributions based on their life expectancy and the entire account must be fully distributed by year-10.

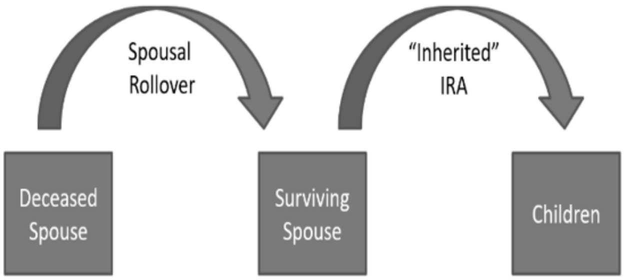
The rules are also different for a non-qualified designated beneficiary, such as an estate. In that case, if death occurs prior to the RBD, the account is subject to the 5-year rule; that is it must be fully distributed by five years after death. If death occurred after the RBD, post-mortem distributions are made according to the "ghost life expectancy rule." In that case, RMDs are calculated using the deceased owner's life expectancy. Since the period for "ghost" distributions may exceed the 10-year rule, this may be a prudent option for some families.

Please note that this rule applies to deaths which occur after December 31, 2019. Anyone who inherited an IRA before 2020 is generally grandfathered in under the old rules. The major exception being that if a beneficiary dies before the entire inherited-IRA is distributed, the 10-year rule now applies. (Under the old rules distribution continued according to the deceased's beneficiary's schedule.)

This 10–Year rule reminds us that a proactive planning approach could reap rewards. To maximize your situation under the new 10-year rule, you may want to consider Roth IRA conversions and possibly spreading distributions over many years and lower tax brackets. Unlike distributions from regular IRAs, Roth IRA qualified distributions are not taxed. There are potential benefits to converting to a Roth IRA, including:

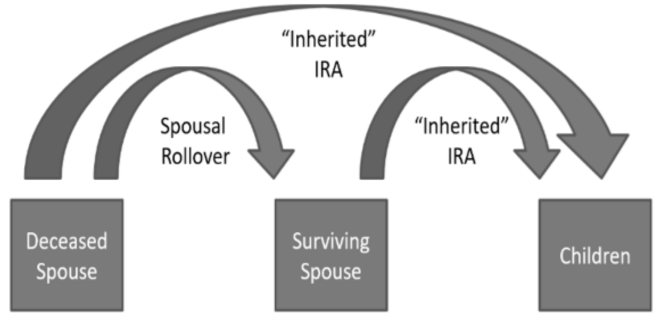
- Lowering overall taxable income long-term.
- Enjoying tax-free compounding.
- Have no RMDs at age 72.
- Allows tax-free withdrawals for beneficiaries.

PREVIOUS RULE "BEST PRACTICE"



According to industry experts, like Robert Keebler, CPA, MST, AEP of Keebler and Associates, one of the old rule's best practices was to, whenever possible, leave all your retirement assets to your spouse who, upon death, would leave them in an "inherited" IRA to heirs who then have the option to "stretch" their withdrawals over their lifetime. This enabled a potentially long period of tax deferral and hopefully asset growth.

10-YEAR RULE "BEST PRACTICE"



Industry experts are now sharing that the potential new best practice is to review a plan that should consider, if appropriate, leaving some of your retirement assets to your spouse who, upon death, would leave those assets in an "inherited" IRA to heirs and also leaving some directly in an "inherited" IRA to your children or others. This could potentially create a spread of tax liability over more brackets and more years.

There are limitations to who and how you can convert to a Roth IRA. Making any changes to your retirement plan could have tax and other implications that could be costly. **If you are interested in learning more about the 10-year rule, please consults with us so we can determine if this is a good strategy for you.**

The Required Minimum Distribution Age Increased to 72

The SECURE ACT increased the required minimum distribution (RMD) age to 72 from 70 ½. Required Minimum Distributions were created to ensure that individuals spend their retirement savings during their lifetime and not use it for estate planning purposes to transfer wealth to beneficiaries. The change from 70 ½ to 72 reflects the increasing life expectancy of Americans. Under the **SECURE Act,** distributions are required to begin by April 1st of the year after you reach 72.

Many times, Qualified Charitable Distributions (QCDs) are used as a proactive tax planning strategy for anyone over 72 taking an RMD. QCD's of up to $100,000 are available to an IRA owner over 70 ½. An amount directly given to an eligible charity processed as a QCD counts toward your RMD requirement and reduces the taxable amount of your IRA distribution. This QCD lowers both your adjusted gross income and taxable income, resulting in a lower overall tax liability. It also lowers your income for purposes of calculating if your social security is taxable. By using, or preparing to use, a QCD, you can potentially meet your RMD requirements and satisfy your charitable intents, all while reducing your taxes. This is an area where a financial professional can offer some suggestions and strategies. We would be happy discuss with you whether or not this tax saving strategy could be beneficial to your specific situation.

Anyone with Earned Income Can Contribute to a Traditional IRA

The SECURE Act permanently removed the age limit at which an individual can contribute to a traditional IRA. Now, any American with earned income can continue to contribute to retirement plans regardless of age. Previously, after age 70 ½, an individual was limited to contributions to ROTH IRAs and could no longer contribute to a traditional IRA. Starting in 2020, the **SECURE Act** allowed anyone that is working and has earned income to contribute to a traditional IRA regardless of age.

At any age, as long as you have earned income, you can make up to a $7,000 contribution ($6,000 and if age 50 and over, a $1,000 catch-up contribution) to a Traditional IRA.

Proactive Retirement Wealth Planning

The **SECURE Act** brought about changes that directly affect how we look at retirement fund distributions and how beneficiaries should distribute their benefits. A solid retirement plan should always take tax efficiencies into consideration. Accumulating wealth in tax deferred accounts such as 401(k)s, traditional IRAs and Roth IRAs is just one part of building your retirement wealth. Another key factor that can be more complex is knowing the best strategy for withdrawing those assets in the most tax efficient manner. Proactively planning your distribution method from your retirement accounts to minimize your tax liability is always a wise practice that can help you retain your hard-earned money. Now is a good time to review your retirement plan, including you and your beneficiaries tax brackets. We can help you understand and devise a well thought out plan for not only your retirement but for your beneficiaries as well.

As your financial professional, we strive to provide you proactive tax planning ideas. We understand this decision can be complex and these are not easy choices. Our goal is to understand our clients' needs and to monitor their wealth.

We can discuss your specific situation at your next review meeting or you can call to schedule an appointment. As always, we appreciate the opportunity to assist you in addressing your financial issues.

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George F. Cerwin, CFP®, CLU is President of GFC Financial Management and has over 40 years of experience working with retirees and those about to retire. George offers Securities and Investment Advisory Services through SagePoint Financial, Inc. member FINRA and SIPC. Insurance Services offered through GFC Financial Management, not affiliated with SagePoint Financial, Inc. Visit our website: www.gfcfinancial.com. Our office address is 2764 Sunset Point Road, #600, Clearwater, FL 33759 and phone number 727-724-9499.