HAYES ADVISORY GROUP
RETIREMENT PLANNING

Knowledge is Power

Now What Are You Going To Do?

Americans have just started to figure out, adjust and adapt to changes brought on by the sweeping tax overhaul that went into effect at the beginning of 2018. Now Americans are going to have to do it again! The passing of Secure Act law that went into effect January 1st of 2020 makes major law changes on retirement account money, including how that money is inherited and how that money is taxed.

One law change that is viewed as a benefit by many people is the increased age change to age 72 for required minimum distributions (RMDs). This law change may seem on face to reduce the tax burden as withdrawals from IRA accounts could be deferred an extra year or two over the old rules, depending on your birthday. However, in many cases, this will actually increase taxes. The reason is that an additional year or two of tax deferral will allow the balances in these accounts to continue to increase, which causes the RMD at age 72 to be larger than it would have been at 70 ½. An increased RMD could put you in a higher tax bracket, or cause you to have to pay the tax at a higher rate in the future if tax rates head higher.

So, not only could that change increase your taxes, but the next change from the Secure Act law could also increase taxes on your heirs. Prior to the Secure Act, IRA distributions from inherited accounts could be spread over the beneficiary's lifetime, known at the 'stretch IRA'. The tax savings of a stretch IRA could be substantial, as only a small portion of the IRA was required to be distributed each year, allowing additional compounding and the ability to minimize withdrawals during the beneficiaries' highest earnings years. Unfortunately, that option is now gone.

The Secure Act replaced the stretch IRA with a 10-year distribution rule for inherited IRA and Roth accounts. This means that most beneficiaries will have to liquidate the accounts within a ten year period. Beneficiaries get flexibility within the 10 years, but the account has to be completely distributed out by the end of the 10th year in most cases. That will cause inherited IRA money to be taxed at much higher rates for many people.

Obviously, this new law change will require many people to update their estate plans. New strategies will have to be implemented for taking distributions during your lifetime, as well as how to properly pass money on to their heirs with the least amount of tax consequences. Join me this weekend on The Retirement Money Matters Show as we share with you some possible adjustments and fixes for your estate plan to help you adapt to this new law the most effective way. The show airs on Saturday afternoon at 4 on WFRN (93.7 FM), Sunday morning at 8:00 on WWKI (100.5 FM) or anytime online at www.theretirementmoneymattersshow.com. You can also obtain this information by reaching out to us at Hayes Advisory Group at 452-PLAN (7526), 800-939-1603 or brian@hayesadvisorygroup.com.