THE BREAKDOWN

HUGHES FINANCIAL SERVICES, LLC

The New SECURE Act

Here's What It Means for You If It Becomes Law

Legislation that would bring about the biggest reforms in retirement policy in more than a decade could be headed toward quick passage in the Senate.

Following the May 23rd passing of the **Setting Every Community Up for Retirement Enhancement (SECURE) Act in** the House of Representatives, SECURE will next pass through the Senate and likely be signed by the President. With strong bipartisan support and the Senate already considering changes for retirement plans, industry expert **Bob Keebler**, CPA, MST, of Keebler & Associates, concurs with many reporters who believe the Act is a done deal. The Act's goal is to improve the nation's retirement system by making it easier for small businesses to provide a retirement plan for their workers and increasing the number of Americans with access to a plan. Currently, as many as 25% of Americans have no retirement or pension plan at all.

Some of the provisions of the SECURE Act that could help Americans better save for retirement include:

- Increasing the tax credit for new company-wide retirement plans from current cap of $500 to $5,000
- Allowing small employers that implement an automatic enrollment feature in their retirement plan design to become eligible for an additional $500 credit
- Allowing two or more unrelated employers to join a pooled employer plan, creating an economy of scale that lowers both employer and plan participant costs

While making retirement plans more available to Americans was the driving force behind the SECURE Act, hidden in this bill are some significant changes that all retirement savers should know about for planning purposes. Let's review three of the proposed changes here:

A BUMP IN THE RMD AGE

This new legislation calls for an **Increase in Age for Required Beginning Date for Mandatory Distributions**. Under current law, participants are generally required to begin taking distributions from their retirement plans at age 70½. The policy behind the original Required Minimum Distribution (RMD) rule was to ensure that people spend their retirement savings during their lifetime and not use their retirement assets to transfer wealth to beneficiaries for estate planning purposes. The age 70½ was first applied for retirement plans in the early 1960s and has NEVER been adjusted in accordance with today's increased life expectancy. The Act will increase the Required Minimum Distribution age from 70½ to 72.

INDEFINITE IRA CONTRIBUTIONS

One key change that the SECURE Act calls for is a **Repeal of Maximum Age for Traditional IRA Contributions**. Specifically, it will repeal the ban on contributions to a traditional IRA by an individual who has reached age 70. As Americans are living longer, an increasing number will continue to work past the traditional retirement age of 65. This change allows Americans with earned income to keep contributing to their retirement plans after age 70.

DEATH OF THE STRETCH IRA

A new provision in the SECURE Act could remove most non-spousal beneficiaries' ability to maximize their tax savings through a strategy known as the "Stretch IRA." The Stretch IRA currently allows beneficiaries (other than the surviving spouse, disabled or chronically ill individuals, individuals who are not more than 10 years younger than the account owner, or child of the account owner who has not reached the age of majority) to take Required Minimum Distributions from the inherited account based on their own much longer life expectancy. This new bill would force a distribution of the account's value within 10 years of the original owner's death.

What Should Your Next Step Be? Proactive Tax Planning!

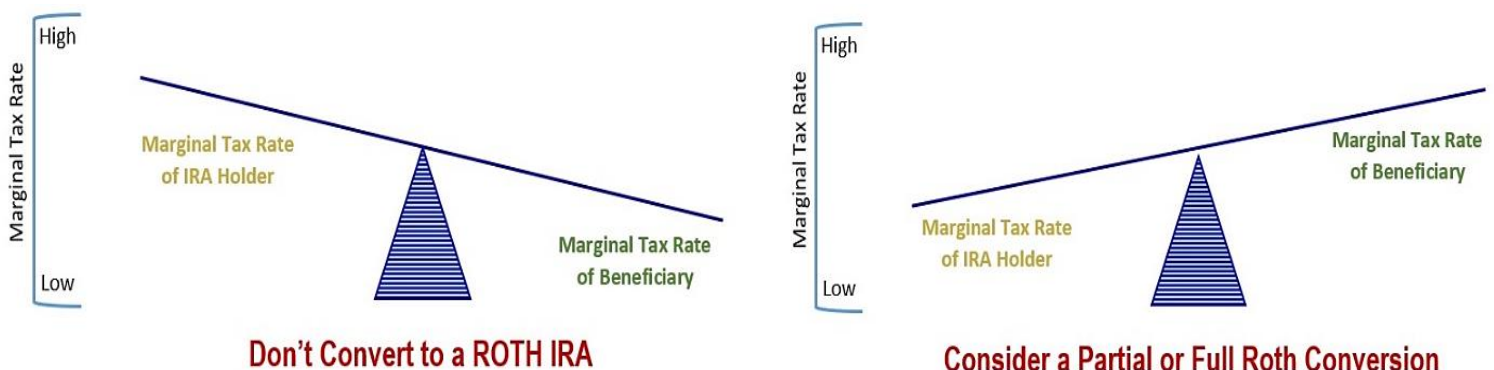
Keebler also suggests that IRA owners work with their financial professionals on **proactive tax planning** and review alternative strategies that could add value to their portfolios. In cases where the IRA account will be passed on to a non-spouse heir, he strongly recommends IRA owners consider proactive planning measures such as Roth Conversions, Qualified Charitable Distributions and other strategies to help minimize their tax bill, especially if the SECURE Act becomes a law.

Keebler shares that, "Charitable remainder trusts allow investors to leave assets to a charitable organization and to a beneficiary. In that scenario, your beneficiary would collect a stream of income from the assets for a specified time span. At the end of that period, the charity collects whatever is left."

To Convert or Not Convert … Is a Roth Conversion Right For You?

For the right type of investor, Keebler likes the benefits of a Roth conversion. "A Roth conversion refers to taking all or part of the balance of an existing traditional IRA and moving it into a Roth IRA. This is a strategy we think about when the IRA owner is in a lower bracket than their beneficiary."

Should I Leave My Beneficiary a Traditional IRA or Roth IRA?



- **Enjoy tax-free withdrawals in retirement.** When you take withdrawals from a traditional IRA, you must pay taxes on the money your investments earned — and on any contributions you originally deducted on your taxes. With a Roth IRA, if you meet certain requirements, all your withdrawals are tax-free.
- **Watch your money grow tax-free longer.** Regardless of whether you actually need the money, traditional IRAs force you to take Required Minimum Distributions (RMDs) every year after you reach the RMD required age. Roth IRA's have no RMD requirement, so your money can remain in the account and keep growing tax-free.
- **Leave a tax-free inheritance to your heirs.** The non-spouse(s) who inherit your Roth IRA will eventually have to take the money out of a tax-free growth situation (Note: If the SECURE Act passes, this required withdrawal could be within 10 years of your passing) but they won't have to pay federal income tax on withdrawals as long as the account has been open for at least five years.

Deciding whether to convert to a Roth IRA hinges on a variety of issues. One important thing to remember is that the conversion will be permanent. Once you convert to a Roth IRA you can't revert the money back to a traditional IRA.

Before deciding to convert, here are some thoughts:

- Will you need the money in the first five years of converting the account? Roth IRA conversions have penalties if used in the first five years.
- Will you end up in a higher or lower tax bracket in the future?
- Where will you take the money from to pay the taxes?

This is an area where a financial professional can offer some helpful suggestions and strategies. We enjoy talking with clients about the pros and cons of both partial and full Roth conversions.

| Qualified Charitable Distributions

Although Qualified Charitable Distributions (QCD) are not included in the SECURE Act, they are one way to be proactive with your tax planning strategy when taking RMDs.

A QCD allows you to transfer up to $100,000 per year from your IRA directly to a qualified charity. It is only available to IRAs and individuals who have reached RMD age (currently 70½ but under the SECURE Act, may change to age 72). Any amount 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 and income benchmark for Social Security benefits.

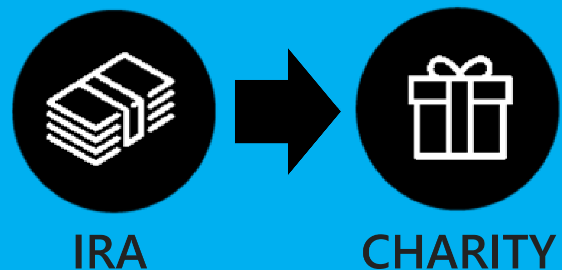
A QCD is a tax-savvy method of giving charitably and meeting your RMD requirements while taking advantage of tax savings today and into the future.

★★★★★ FIVE STAR TIP: For tax return filings, your IRA custodian is not required to specifically identify the QCD on your annual 1099-R form. THE RESPONSIBILITY IS ON YOU TO INFORM YOUR TAX PREPARER THAT YOU USED A QCD. If you don't let your tax preparer know, they could report this transaction as fully taxable, which would negate the benefit of your smart tax planning.

Once again, this is a specific area where a financial professional can offer some helpful suggestions and strategies. We enjoy talking with clients about QCDs for anyone over the age of 70.

QCD for RMD

Give charitably for tax savings



Final Thoughts on Proactive Retirement Planning

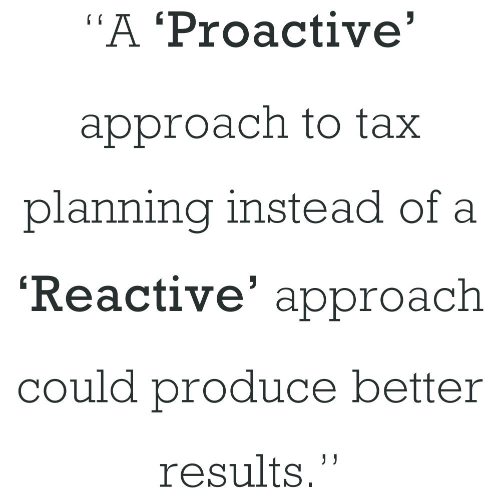
Over your lifetime, you may accumulate assets in tax-deferred retirement accounts like 401(k) plans and traditional IRAs. You may also have Roth accounts that compound without tax consequences. When thinking about the assets you have accumulated in your retirement accounts, **A KEY ISSUE IS TAX EFFICIENCY**. Accumulating assets in a tax efficient manner is only one part of your overall tax strategy; the other, more complex, part is withdrawing those assets while making use of the most sensible tax advantages. Ultimately, your goal is to try to proactively plan the withdrawals from retirement accounts while minimizing your tax liability.

The SECURE Act would provide a bit of flexibility when it comes to timing some of your RMD strategies since the proposed RMD age could be raised to age 72. The Act could provide another 18 months of planning time before a mandatory distribution is required.

However, waiting until it's signed into law may not leave enough time to adjust your plans and minimize taxes for yourself and loved ones. This legislation makes changes so sweeping and so new that the impact on long-term financial plans are still being researched. Please watch for special updates from Hughes Financial Services throughout the year to determine its impact on your financial plans.

If the SECURE Act becomes law, in whatever version it becomes, we will review it for opportunities we believe can help our clients with proactive tax planning. Determining the most tax efficient ways to either withdraw or pass to your beneficiaries your accumulated wealth is always an important decision. We will stay updated about any changes that could impact you and keep you informed along the way.

If you would like to discuss your retirement plan and withdrawal strategy, please call us. One of our missions is to understand our clients' needs without allowing emotions to affect our clients' decision-making. We can discuss your specific situation at your next review, or you can call to schedule an appointment at any time. As always, we appreciate the opportunity to assist you in addressing your financial issues.



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