In December 2019, long before the pandemic, the Secure Act was passed. You might remember as it made changes to IRA (individual retirement account) rules. There are two changes in particular we think are worth noting. The act eliminated the ability to "stretch" IRA distributions over several generations and the minimum required distribution age was changed from age 70 ½ to age 72.

Stretch IRA's

The term "stretch IRA" came about as non-spouse beneficiaries used to be able to take distributions over their life expectancies. Well for most, that rule no longer applies. Non spouse beneficiaries are required to distribute the entire IRA balance within 10 years of the account owner's death. This gives us some time for planning, but be aware of this rule when naming your beneficiary.

The exception to this rule is if the non-spouse beneficiary is an "Eligible Designated Beneficiary or EBD." There are 5 categories of EBDs listed below. However, at the death of any of these EBD, the new 10-year distribution period applies.

1. The account owner's surviving spouse.

2. The account owner's child who is less than 18 years old (but once they turn majority the 10-year rule applies).

3. A disabled individual.

4. A chronically ill individual.

5. Any other individual who is not more than 10 years younger can use their life expectancies to calculate required minimum distributions.

Distributions

The Secure Act pushed back the age which retirement plan participants need to take required minimum distributions. Starting in January 2021 required minimum distributions begin at age 72 (prior to distributions began at age 70 1/2).

Contributions

Another change is, anyone no matter how old, with earned income can make an IRA contribution. Prior to the Secure Act, if you were over age 70 ½ you could no longer contribute to your IRA. Depending on whether you participate in your employer's retirement plan and how much your taxable income is will decide if your contribution can be deducted against your income.

To assist with the navigation of some of these new rules we have compiled a list of IRA strategies to consider-

- Make an IRA contribution even if it is not deductible as a way to save more in a tax deferred account. Earnings are not taxed annually in an IRA; they are taxed when you take a distribution.
- Non-deductible contributions should be reported on IRS Form 8606 each year. This form tracks the accumulation of these contributions which creates a portion of your IRA that is not taxable when you start taking distributions.

- If you are over age 70 ½ the IRS allows IRA account owners to distribute up to $100,000 annually from their IRA to charities (qualified charitable distributions or QCDs). This amount can count toward your required minimum distribution. And the best part, it's a non-taxable distribution from your IRA. Although the gross distribution will be reported to you on Form 1099R, you'll need to let your tax prepared know how much of the IRA distribution was given to charity so they can exclude the amount from your taxable income.
- Choose a person over a trust as a beneficiary. Trust tax rates are much higher, and the distributions are more complicated. Spouses, should be a primary beneficiary. Spouses are able to roll over the IRA and treat it as their own. Spouse are also able to take required minimum distributions over their lifetimes.

Take the time to review your current beneficiaries. If you have questions reach out to us at Schaefer Financial and we are more than happy to do a thorough review of your retirement plan accounts. We can evaluate the situation and look at whether the results are acceptable to you. We can analyze the tax situation, discuss with your beneficiaries their distribution plans or review the option of incorporating a charity as a beneficiary. In the end we want to make sure that we assist your heirs to carry out your intent, and pass on your legacy.