5 Major Changes to Tax and Estate Planning for Retirement Assets in 2020 and beyond

The Setting Every Community Up for Retirement Enhancement (SECURE) Act became law last month as part of a year-end spending bill rushed through Congress to avoid a government shutdown. Its passage requires a fresh look at estate planning for retirement accounts.

1. **"It's the end of the stretch IRA as we know it..."** When your heirs (subject to limited exceptions) inherit your retirement assets, they must receive the entire account and pay all income taxes within 10 years. This back door inheritance tax reduces their opportunity to treat an inherited IRA, the vehicle usually chosen by a beneficiary to rollover a retirement account, as their retirement nest egg. As a result, the withdrawn funds cease to grow tax-deferred and may be exposed to taxation, creditors, divorce, etc.

2. **"Defer, defer, defer..."** The new law delays required minimum distributions from an IRA until the account owner reaches age 72. Moreover, the law removes the age 70 ½ cap for deductible IRA contributions. These changes will provide additional time to grow the account tax deferred, while you consider strategies to minimize the overall tax burden to your family.

3. **"To Roth or not to Roth... "** One way to minimize the future income tax bill to your family is to convert taxable retirement accounts into a tax-free alternative. Depending on current vs. projected income tax rates, both for the account owner and the account beneficiaries, Roth conversions could be the right solution. If the Roth is not the way to go, converting taxable retirement funds into tax-free life insurance may be an appealing alternative.

4. **Revisit your estate plan.** Clients protect retirement benefits in trust for their heirs for many reasons, including to protect against mismanagement by a minor beneficiary, to shield the account in the event of a divorce, or to simply ensure that the assets continue down the blood line. The 10-year payout deadline imposed by the new law renders useless certain commonly used trusts. Instead, trusts that protect the assets over a beneficiary's lifetime with no mandatory distributions will be preferred.

5. **Incorporate philanthropy in your planning.** Retirement accounts are excellent assets to leave to charity since they avoid both income and estate taxes on the accumulated funds. However, clients who are not very wealthy are reluctant to deny their heirs access to these accounts. You achieve both goals by incorporating a charitable trust strategy into your estate plan that benefits your heirs and ultimately passes the IRA to charity.

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