Retirement Income – Post SECURE Act 2019

SECURE Act 2019

- Changed many rules about retirement planning

Required Minimum Distributions (RMDs)

- Why are they important?
    - Some types of retirement accounts mandate beginning distributions at a certain age.
    - Important to know when to take them, how they will impact your retirement plan, taxes, etc.
- When do they start?
    - Currently: age 73 (turning 73 in 2024 and later)
    - Will increase to 75 in 2033
- What types of accounts have RMDs?
    - Tax-deferred accounts
    - Pre-tax Employer Sponsored Plans: 401(k), 403(b), 457 plans
    - Traditional IRA, Rollover IRA, SEP IRA, Simple IRA
- How is the RMD amount calculated?
    - Usually 4-5% of account balance
    - Calculated using a life expectancy table provided by IRS. The table assigns a number to your age, and takes the prior year account balance (as of 12/31) and dividing it by that number.
- When must it be taken?
    - First year: Between your RMD age birthday and April 1 of the following year
    - All subsequent years: RMDs need to be completed by 12/31 to avoid penalty
        - Example: You turn 73 on October 4, 2024. Your first RMD needs taken no later than April 1, 2025. Next RMD will also need to be taken in 2025, but you have until December 31st.
    - Tax planning is an important factor when deciding when to take your RMDs
- Is there penalty for not taking RMD?
    - YES - penalty is 25% of amount not taken, as of 2023
    - Possibility of lowering to 10% if corrected within 2 years
- What if I am still working when I reach RMD age?
    - Employer-sponsored 401(k): you can delay start of RMDs until you retire
    - Traditional IRA: RMDs must begin at required age
- Accounts not affected by RMD rules
    - Roth IRA
    - Also Roth 401(k) and 403(b) as of 1/1/2024

Qualified Charitable Distributions (QCDs)

- Why are they important?
  - A distribution that goes directly to charity is not considered a taxable distribution
  - Amount is not subject to income tax for the account owner
  - Another great tax/estate planning consideration
- When does this become an option?
  - Beginning at age 70.5
  - Permitted to make up to $100,000 gifts to charity directly from pre-tax IRA
  - Amount is indexed for inflation starting in 2024
- How did SECURE Act 2.0 effect this decision?
  - Starting in 2023, a one-time election can be made to QCD up to $50k into Charitable Remainder Uniform Trust, Charitable Remainder Annuity Trust, or Charitable Gift Annuity.

Roth Conversions

- What are they?
  - Moving assets from your pre-tax retirement accounts to Roth retirement accounts
- Why is it important?
  - If you wish to pay the tax instead of passing on that responsibility to beneficiaries.
  - Maximize current income tax brackets
  - Good estate and tax planning tool
- Things to consider?
  - This is a taxable distribution. Do I have the cash to cover taxes owed on amount converted?
  - Do I know the circumstances of those who will inherit this money?
    - If beneficiaries are in a higher tax bracket than you, it may be beneficial to pay the tax so their NET is higher.
    - If they're in a lower bracket, might be more advantageous to pass on pre-tax dollars.
- Benefits of having Roth accounts for estate plan purposes?
  - No RMD on Roth IRAs for account owner
  - Tax-free withdrawals from Roth accounts for both account owner and beneficiaries

Other SECURE Act 2.0 Updates: Catch-up Contributions to 401(k)s

- Beginning in 2026, all catch up contributions for those age 50 and up and making more than $145,000 per year, will be required to be added on a Roth or after-tax basis.
- Those making under $145,000 are not required to have those contributions added via Roth.
- Starting 1/1/24, no more RMDs from Roth 401(k)/403(b)
- In 2025, additional catch up contributions allowed for those ages 60-63. That amount will be the greater of $10,000 or 150% of that year's regular catch-up contribution.

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