Torrance Memorial | An Affiliate of Cedars Sinai

Foundation

# Welcome!

## IRA and 401k RMD Planning to Protect Your Retirement Assets

March 9, 2024

Taking Care of Your Financial Health

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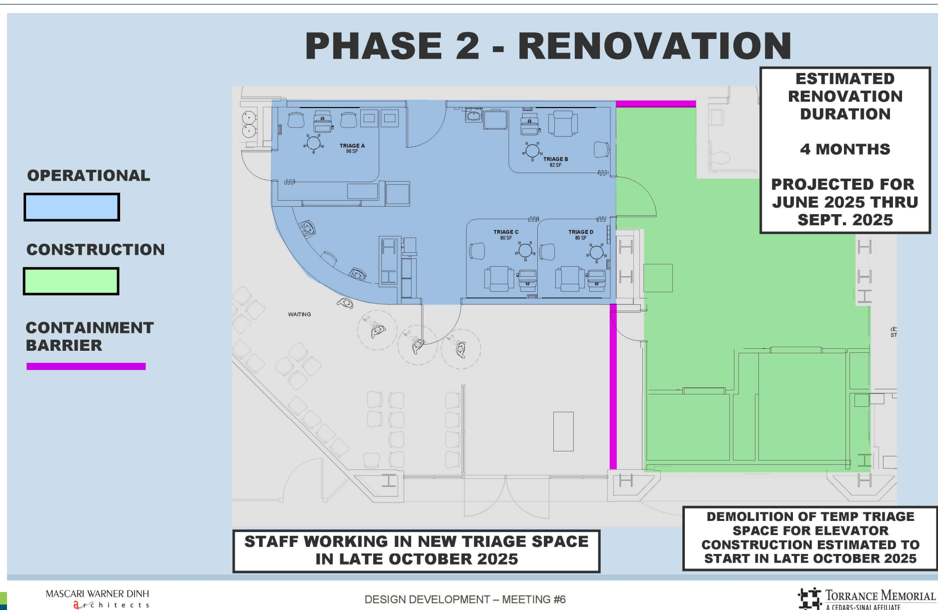
## Torrance Memorial Highlight – ED Expansion

Lobby & Triage Renovation

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## Types of Planned Gifts

1. **Bequest** – gift through will, living trust or designation in a qualified retirement plan.
2. **Immediate Charitable Gift Annuity** – Simple contract between donor and the Torrance Memorial Foundation whereby lifetime payments are made to one or two individuals.
3. **Deferred Charitable Gift Annuity** – Annuity payments are deferred until a specified date in the future.
4. **Charitable Remainder Trust** – Trust that provides fixed or variable payments to named beneficiaries for life or a specified term of years.
5. **Retained Life Estate** – Gift of remainder interest in home or farm. Donor retains the right to live in the home for life.
6. **IRA Beneficiary** – Naming Torrance Memorial as the beneficiary of your retirement accounts (percentages can be designated as desired)



## IRA / 401k Beneficiary Designations

- Name an individual or charity – NOT your trust
- Can use percentages to designate multiple beneficiaries
- Revisit every few years to keep up-to-date
- You pay income tax on your IRA RMD*
- No different for your heirs when inheriting IRA or 401k
- No tax liability when naming Torrance Memorial (charity)
- Use other assets to pass along to heirs

**Do NOT name/designate your trust!**

*RMD=Required Minimum Distribution

## Resource for Planned Giving

www.TorranceMemorialFoundation.org/planned-giving

- Learn about the different arrangements available
- Plug in some numbers in the “gift calculator” to get an idea of how this type of gift might work for you
- **Download a FREE estate planning kit**
- Contact Sandy VandenBerge at (310) 784-4843
  sandy.vandenberge@tmmc.com


Financial Health articles - www.torrancememorialfoundation.org/News



## How to Donate to Torrance Memorial

### Online

https://www.torrancememorialfoundation.org/Donate

### By Phone

Please call Torrance Memorial Foundation at 310-517-4703

You may charge your gift to your credit card or make a gift pledge

### By Mail

Check or credit card information to: Torrance Memorial Foundation
3330 Lomita Blvd
Torrance, CA 90505

IRA and 401k RMD Planning to Protect Your Retirement Assets

March 9, 2024

## Presenters


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Material discussed herewith is meant for general illustration and/or informational purposes only and not intended to provide specific advice for any individual.

Investing involves risks including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss. Past performance is no guarantee of future results. Please note individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice.

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## Everest and Retirement


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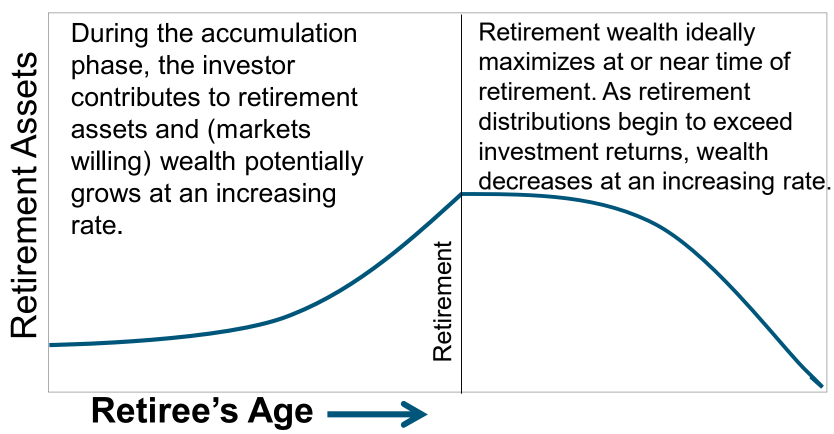
## Accumulation vs. Distribution in Retirement

### Hypothetical Wealth of an Investor's Life




Source: Russell Investments/Helping Advisors

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## What You Will Gain Today

- Know specific elements of how to protect your retirement and potentially save money on taxes and penalties
- Handouts for future reference
- Have a better understanding of how to take money OUT
  - ✓ Choices affecting your income and tax savings during lifetime
  - ✓ Choices affecting your beneficiaries
- An introduction to a specialty area of financial planning
- Gain Knowledge and Confidence!

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## Agenda

- **Retirement – Planning you can control even during times of uncertainty**
- **Tax aspects that make 401(k)s, IRAs and other retirement accounts different**
- **Required Minimum Distributions (RMDs)during life**
- **Required Minimum Distributions (RMDs) at death**
- **Proactive questions to begin your review and action plan**

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Retirement

Planning

Taxation

## Presenter

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Before deciding whether to retain assets in a 401(k) or roll over to an IRA, an investor should consider various factors including, but not limited to, investment options, fees and expenses, services, withdrawal penalties, protection from creditors and legal judgments, required minimum distributions and possession of employer stock. Please view the Investor Alerts section of the FINRA website for additional information. A diversified portfolio does not assure a profit or protect against loss in a declining market

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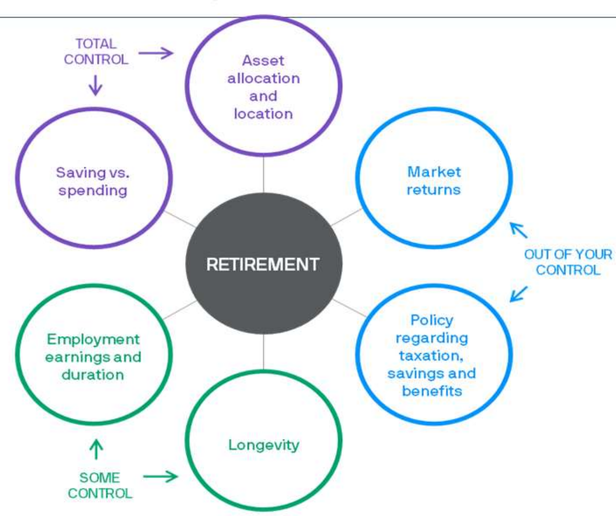
# The Retirement Equation




**A sound retirement plan**

Make the most of the things that you can control but be sure to evaluate factors that are somewhat or completely out of your control within your comprehensive retirement plan.

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Source: The Importance of Being Earnest, J.P. Morgan Asset Management, 2013.

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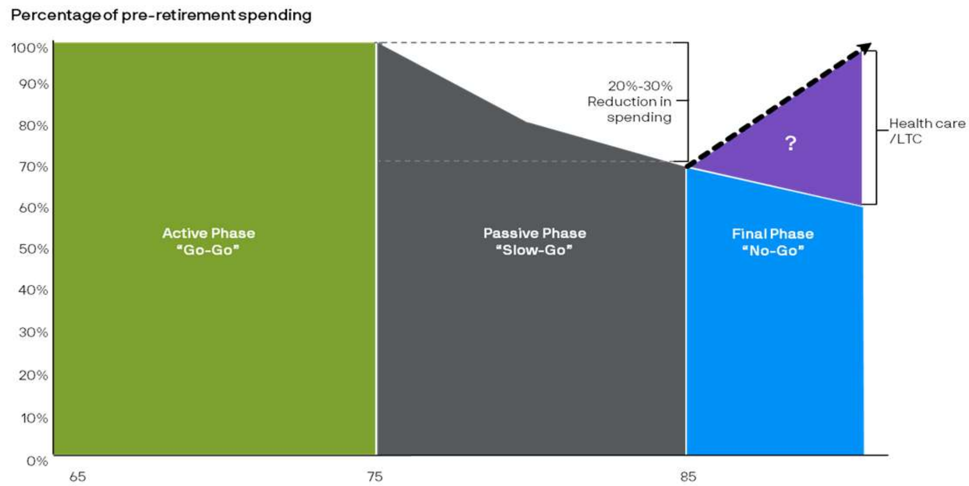
## “The Prosperous Retirement”: Theoretical Spending Profile

Spending




Source: The Prosperous Retirement: Guide to the New Reality, Michael K. Stein, CFP, 1998. pp. 16-18.

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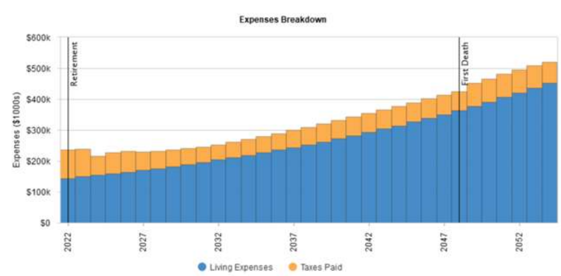
## Cash Flow: Multi-Year Expense and Tax Projection

Spending




| Year | Age | Living Expenses | Other Expense Flows | Taxes Paid | Total Expenses |
|---|---|---|---|---|---|
| **2022** | **69/68** | **$142,342** | **$0** | **$93,924** | **$236,266** |
| 2023 | 70/69 | 150,526 | 0 | 89,086 | 239,612 |
| 2024 | 71/70 | 154,732 | 0 | 62,312 | 217,044 |
| 2025 | 72/71 | 158,174 | 0 | 69,295 | 227,469 |
| 2026 | 73/72 | 163,632 | 0 | 67,462 | 231,094 |
| 2027 | 74/73 | 169,688 | 0 | 60,323 | 230,011 |
| 2028 | 75/74 | 175,966 | 0 | 55,669 | 231,635 |
| 2029 | 76/75 | 182,476 | 0 | 52,823 | 235,299 |
| 2030 | 77/76 | 189,228 | 0 | 50,721 | 239,949 |
| 2031 | 78/77 | 196,229 | 0 | 49,785 | 246,014 |
| 2032 | 79/78 | 203,491 | 0 | 49,669 | 253,160 |
| 2033 | 80/79 | 211,019 | 0 | 50,212 | 261,231 |
| 2034 | 81/80 | 218,826 | 0 | 50,767 | 269,593 |
| 2035 | 82/81 | 226,923 | 0 | 52,189 | 279,112 |
| 2036 | 83/82 | 235,320 | 0 | 53,397 | 288,717 |
| 2037 | 84/83 | 244,026 | 0 | 55,449 | 299,475 |
| 2038 | 85/84 | 253,055 | 0 | 56,932 | 309,987 |
| 2039 | 86/85 | 262,419 | 0 | 58,354 | 320,773 |

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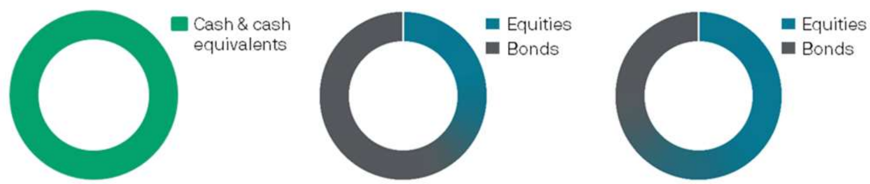
## Goals-based Retirement Wealth Management

### Invest by Spending Time-Horizon

**Short-term goals**
Includes emergency reserve fund of total spending needs for 3-6 months

**Medium-term goals**
5-10 years, e.g., college, home

**Long-term goals**
15+ years, e.g., retirement




**Divide and conquer**

Aligning your investment strategy by goal can help you take different levels of risk based on varying time horizons and make sure you are saving enough to accomplish all of your goals – not just the ones that occur first.

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## Diversified Sources of Retirement Planning

Spending

| Account type | Investment earnings/ withdrawals | Included when calculating: Income taxes owed? | Included when calculating: Social Security % taxed? Medicare surcharges? |
|---|---|---|---|
| Health Savings Account | Tax-free withdrawals (for qualified health care expenses)[1] | | |
| Roth 401(k)/IRA | Tax-free withdrawals[2] | | |
| Taxable Account | Tax-exempt interest | | ✓ |
| | Ordinary dividends Taxable interest | ✓ | ✓ |
| | Qualified dividends | ✓ | ✓ |
| | Realized capital gains | ✓ | ✓ |
| Pre-tax 401(k)/ Traditional IRA | Taxable withdrawals (ordinary income) | ✓ | ✓ |

**Retirement funding sources are not created equal**

Investment earnings and withdrawals from tax-advantaged accounts are primary sources to fund retirement spending needs.

When building a retirement income plan, be aware of sources that may be used to determine:

- Income taxes
- How much of a Social Security benefit is subject to tax
- Additional required Medicare premiums

Qualified withdrawals from Roth or Health Savings Accounts can provide tax-free funding that is not included in the means-testing of retirement-related government benefits.

This is not intended to be individual tax advice; consult your tax professional.
[1]Must have a qualifying high-deductible health plan to make contributions. Funds in the HSA may be withdrawn tax free for qualified medical expenses unless a credit or deduction for medical expenses is claimed. After age 65 funds also may be withdrawn at ordinary income tax rates without penalty for any reason.
[2]Subject to 5-year Roth account holding period and age requirements.
Source: J.P. Morgan Asset Management.

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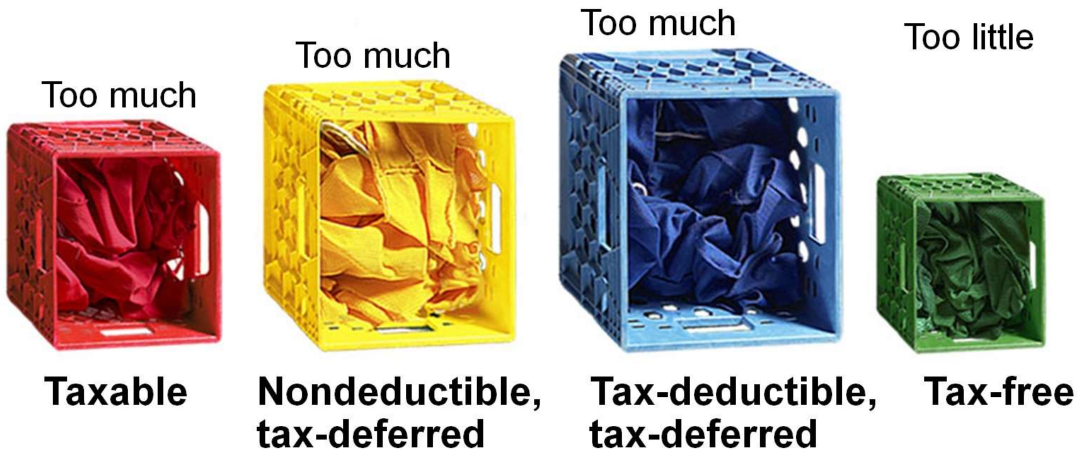
## Typical Retirement Strategy

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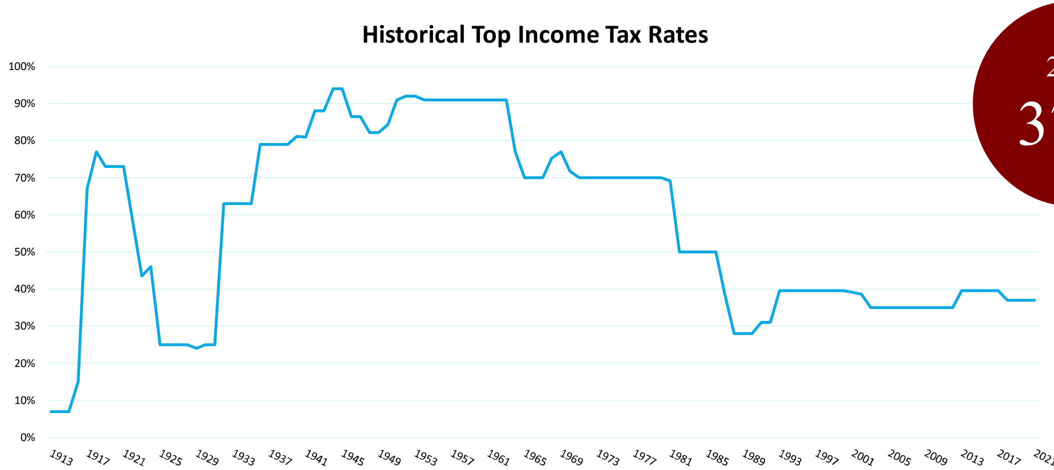
## Historical Top Tax Rates

### Do you think taxes will be lower or higher in the future?




2024
37%

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# Taxation of 401(k) & IRA Withdrawals

- Withdrawals from retirement accounts are generally taxed at ordinary income tax rates
- Withdrawals are added to your income and taxed at whatever bracket you're in
- Every single dollar withdrawn is potentially subject to income tax

**2024 Federal Tax Brackets**

| Tax Bracket | Single | Married/Joint |
|---|---|---|
| 10% | $0-$11,600 | $0-$23,200 |
| 12% | $11,601-$47,150 | $23,201-$94,300 |
| 22% | $47,151-$100,525 | $94,301-$201,050 |
| 24% | $100,526-$191,950 | $201,051-$383,900 |
| 32% | $191,951-$243,725 | $383,901-$487,450 |
| 35% | $243,726-$609,350 | $487,451-$731,200 |
| 37% | $609,351+ | $731,201+ |

*Source: IRS.gov*



# Have you factored your IRA tax liability?

Income tax must be paid during life <u>or</u> after death.
But it <u>must</u> be paid.

**Detailed Balance Sheet**

| Assets | Jen | Martin | Joint - ROS | Total |
|---|---|---|---|---|
| Checking Account | -- | -- | $50,000 | $50,000 |
| E*Trade Stock Account | -- | -- | 56,280 | 56,280 |
| Fidelity Stock Account | 1,085,900 | -- | -- | 1,085,900 |
| 401(k)-American Funds | 939,530 | -- | -- | 939,530 |
| 403(b)-Oppenheimer | 200,000 | -- | -- | 200,000 |
| IRA-Charles Schwab | 671,615 | -- | -- | 671,615 |
| Roth IRA-Charles Schwab | -- | 285,770 | -- | 285,770 |
| TSA - Annuity at TIAA CREF | -- | 315,300 | -- | 315,300 |
| 12345 PCH | -- | -- | 2,000,000 | 2,000,000 |
| Investment RE Rental Condo | -- | 650,000 | -- | 650,000 |
| Home Furnishings, Art, Jewelry & Etc. | -- | -- | 50,000 | 50,000 |
| Life Insurance-AIG UL | -- | -- | 25,000 | 25,000 |
| **Total Assets:** | **2,897,045** | **1,251,070** | **2,181,280** | **6,329,395** |

| Liabilities | Jen | Martin | Joint - ROS | Total |
|---|---|---|---|---|
| Estimated Tax Liability on IRAs at 40% | -- | -- | ($850,000) | ($850,000) |
| **Total Liabilities:** | **0** | **0** | **(850,000)** | **(850,000)** |
| **Total Net Worth:** | **$2,897,045** | **$1,251,070** | **$1,331,280** | **$5,479,395** |

## Tax Deferred Retirement Accounts are Different

- Generally taxed at ordinary income rates upon withdrawal – both during life and after death
- **Investment gains receive no favorable capital gains tax rates, and losses receive no deductions**
- Receive no step-up in basis at death
- **Cannot be transferred to trusts during lifetime**
- And much more…

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## Get to know your retirement account types

### General types of tax advantaged retirement plans

**Individual Plans**

- Traditional IRA
- Inherited IRA
- Roth IRA
- Inherited Roth IRA

**Company Plans**

- 401(k)
- 403(b)
- 457
- TSP
- SIMPLE, SEP and other company plans
- Roth 401(k)
- Roth SIMPLE and Roth SEP Plans (new as of 2023)

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## Know the Six Potential "Rollover" Options for your Plan Funds

1. Leave your assets in your existing plan account
2. Roll over your plan assets to another plan
3. Roll over your assets to an IRA
4. Take a lump-sum distribution
5. Convert your plan assets to a Roth IRA
6. Make an in-plan Roth conversion

*Rolling over your plan assets may not be right for you, as there may be disadvantages, including surrender charges, deferred sales charges, early withdrawal penalties and the loss of certain rights and guarantees.

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## "Charitable IRA Rollover" (i.e. Qualified Charitable Distribution-QCD)

**Qualified Charitable Distributions**

This tax strategy helps someone who is charitably inclined to make a direct donation while eliminating the income taxes due on the distribution.

**IRA**
Direct transfer

Charitable organization[1]

**Qualifications**

- Donor must be age 70½
- Annual $100,000 cap[2]
- Transfer from IRAs only[3]
- Transfer prioritizes deferred taxable income first
- No tax deduction on transfer but removes amount from AGI

Now Indexed for Inflation - $105,000 cap for 2024

**Giving more by paying less tax**

**Qualified Charitable Distributions** (QCDs) allow Required Minimum Distributions (RMDs) to be transferred directly to charity and to not be included in the account owner's taxable income.

Although the **Secure Act** has moved the RMD age to 72, QCDs can still be made beginning at age 70 ½.

- 1.Not applicable to supporting organizations, donor advised funds or private foundations. 2.Reduced by any deductible IRA contribution made in the same year. 3.Traditional IRAs. While in certain circumstances a QCD could be made from a Roth IRA, a Roth is not subject to RMDs and typically withdrawals do not incur income tax so generally this strategy would not be recommended. Not intended to be personal advice. Consult with your tax professional. Consolidated Appropriations Act of 2016 made the QCD permanent. Source: J.P. Morgan Asset Management.

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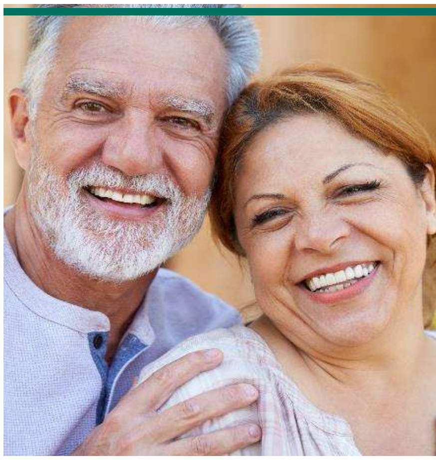
## Charitable Giving and Tax Planning Example



### Albert and Shirley (age 74)

- Combined IRAs valued at $500,000
- 24% bracket
- Give $10,000 to charity
- $15,000 existing itemized deductions
- 2024 Standard Deduction is $32,200
- Note: The $10,000 donation and the $15,000 itemized deductions get no federal tax benefit (less than the standard deduction)

*Always consult a tax professional before taking action.

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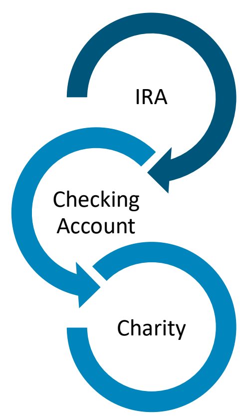
## Option 1: What's the cost of a "non" QCD contribution*

- Take $10,000 of RMD – deposit to checking
- Gift that $10,000 to charity (TMMC for example)
- $10,000 is reported as taxable income
  - The $10,000 does not satisfy any of the RMD
- Tax bill on distribution at 24% tax rate = $2,400
- **Total cost of charitable contribution = $12,400**




*Assumes the taxable distribution is taxed at the 24% tax rate.
Always consult a tax professional before taking action.

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## Option 2: What's the savings of a QCD contribution*

- Charity (TMMC for example) gets $10,000 *"directly"* from IRA
- $10,000 satisfies RMD
- $10,000 is excluded from taxable income
- Tax bill on distribution = $0
- Total cost of charitable contribution = $10,000
- **Opportunity savings (from "non" QCD Option) = $2,400**
- Does not even account for other possible savings from a lower AGI (Adjusted Gross Income)


*Assumes the taxable distribution is taxed at the 24% tax rate.
Always consult a tax professional before taking action.





Retirement

IRAs, RMDs

Beneficiaries

## Presenter

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## Which Accounts to Spend Down First?

Sam and Mary want a smart distribution strategy

| | |
| --- | --- |
| Sam's IRA | $450,000 |
| Mary's IRA | $450,000 |
| Sam's Roth IRA | $600,000 |
| Mary's Roth IRA | $60,000 |
| Joint Bank Account | $300,000 |

*Always consult a tax professional before taking action.

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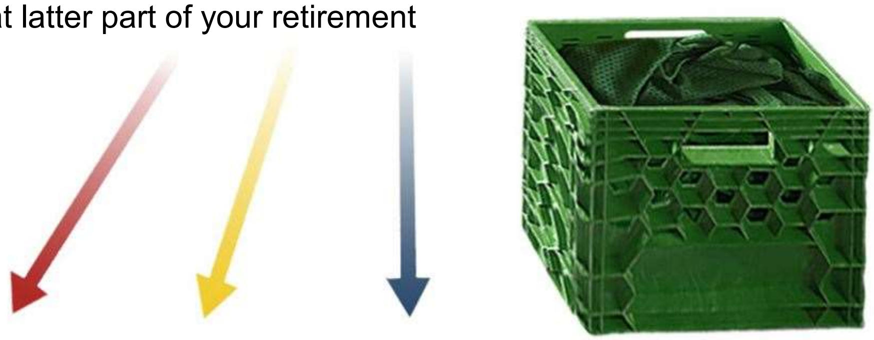
## Smart Late-Retirement Strategy

Assuming these accounts are spent first, you may be left with a tax-free income source at latter part of your retirement



**Taxable** | **Nondeductible, tax-deferred** | **Tax-deductible, tax-deferred** | **Tax-free**

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## Should I "Convert" to Roth IRA?

### 8 Basic Considerations


- What do you believe about future tax rates?
- What will it cost you?
- How can you reduce that cost?
- What's your age and life expectancy?
- When will you need the money for income?
- Where will the money come from to pay the tax?
- Who are your beneficiaries?
- How much might be optimal to manage RMDs?



## Roth IRAs have No Required Minimum Distributions (RMDs)

### No required distributions during your lifetime

You decide when you want to take distributions.

Allows your account to grow uninterrupted, tax-free for life.

Can provide tax-free money for you during life or upon inheritance to heirs.

*Always consult a tax professional before taking action.

## What if you don't want to convert to Roth IRA?

### Should you continue to defer your IRA distributions?

- It allows your account to grow tax-deferred for as long as possible
  - May provide continued triple tax-deferred compounding of interest or dividends
- It keeps income off your tax return
- It keeps things simple
- But it doesn't solve the problem and...

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## You Can't "Defer" Taxes Forever!

# Required Minimum Distributions

# (RMDs)

# <u>during</u> the IRA owner's life

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## 2022 SECURE Act (2.0) Caused *Many* Changes

### Most important for today's topic:

- RMD Age raised to 73 (RBD raised accordingly)

| Age 72 (or 70 ½) | Born 1950 or earlier |
|---|---|
| Age 73 | Born 1951 – 1959 |
| Age 75 | Born 1960 or later |

- Missed RMD penalty reduced from 50% to 25% (or 10% if corrected "timely")
- No Lifetime RMDs on "Plan" Roth Accounts (effective 2024)

*REFER TO SECURE ACT 2.0 Handout

RBD-Required Beginning Date

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## The Required Beginning Date (RBD)

- **RBD** (Required Beginning Date) **is a REALLY BIG DEAL!**
  - The first date original account owner is/was required to begin taking RMDs
- RMDs must be taken by the RBD
- **RBD is now generally April 1 of year after IRA owner turns age 73 (until 2033, then after age 75)**
- If someone is still working the RBD is generally April 1 after year retirement plan owner retires

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## Here's How it Works (Traditional IRA RMDs During Life)

**RMDs add to your taxable income even if you don't need the income!**

Start with the year you reach age 73 (or RBD)

Divide prior year's ending account balance by the remaining life expectancy (See table)

*For example, with a $500,000 balance:*

$500,000 / 26.5 = $18,868

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# EXCEPTION

WHEN AN IRA OWNER IS MARRIED AND IS MORE THAN 10 YEARS OLDER THAN HIS/HER SPOUSE YOU CAN REFER TO THE JOINT LIFE EXPECTANCY TABLE FOR MORE FAVORABLE RMD CALCULATIONS

SEARCH: IRS.GOV "JOINT LIFE EXPECTANCY TABLE"

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## A Few (of many) Important RMD Considerations

- Do you take them early in the year or late in the year?
- Do you have automatic RMDs established on each IRA account?
- Are you making a QCD in the same year as an RMD?
- Are you selling *specific* investments or proportionately across your IRA account?
- Which types of *investments* do you own to help provide the distribution rate necessary to fund those RMDs
- From which accounts do you take the RMDs?


*New life expectancy factors began in 2022

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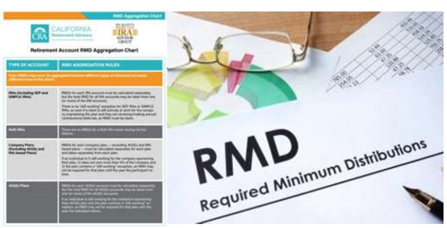
## Three Common RMD Mistakes




**1**

**Aggregating RMDs between IRAs and different types of retirement plans.**

**2**

**Aggregating RMDs between spouses.**

**3**

**Aggregating RMDs with any Inherited IRAs you may own**

*Always consult a tax professional before taking action.

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# What about RMDs

# <u>after</u> the IRA owner dies?

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## 2019 SECURE Act (1.0) Caused *Major* Changes

**Most Important For Today's Topic:**

**SECURE Act ended the "Stretch IRA" as we knew it!**

- For IRA account holder death occurring after 2019, beneficiaries now have a 10-year distribution RMD Period
  - ✓ Account must be emptied by the end of year 10
  - ✓ Potentially more flexible within the first 10 years*

**Grandfathered Exceptions for designated beneficiaries who inherited before 2020**

- Continue to be eligible for lifetime "Stretch IRA"

*Flexibility occurs when the IRA owner dies before the Required Beginning Date (RBD). Under the new IRS proposed regulations when the IRA owner dies after the RBD, RMDs would be required.

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## How to Establish an Inherited IRA

**Inheriting beneficiary action items if not disclaiming:**

- **Change Social Security number on account to his/her own Social Security number**
- Change account title (name of account owner must remain in account title). **Example:**
  ***John Smith, deceased (date of death), IRA fbo Charles Smith***
- **Name a Successor Beneficiary (if account document allows)**
- **When changing plan providers, move funds via "direct transfer" only.**
  Non-Spouse Beneficiaries can NOT do a 60-day rollover

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## New Proposed "Regulation" for 2023

Consult with your tax advisor for interpretation

- **Introducing the 'At Least As Rapidly' rule (ALAR)**
  In its proposed SECURE Act regulations, the IRS takes the position that when death occurs on or after the required beginning date (RBD) – generally April 1 of year after person turns age 73 – an NEDB must also take annual RMDs in years 1 – 9 of the 10-year period. This requirement of annual RMDs stems from a rule sometimes called the "at least as rapidly" (ALAR) rule.
- **Once It Is Turned On, It Cannot Be Turned Off**
  It's a function of frequency, not amount

"Unfortunately, even though these are 'proposed' regulations, the changes are likely effective now. This isn't like tax law, where proposed legislation doesn't become a law until it's signed into law by the president. The SECURE Act was effective law as of Jan. 1, 2020; now, two years later, the IRS has issued these 'proposed regulations' on how the RMD rules will work." - Ed Slott, CPA (*Investment News – IRA Alert*, March 2022)

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## 2019 SECURE Act (1.0) Caused Major Changes

There are also exceptions for **5 Eligible Designated Beneficiary (EDB)** groups:

1. Spouse
2. Disabled
3. Chronically ill
4. Individuals not more than 10 years younger than the IRA owner
5. Minor Children – until they reach the age of 21

Plus – Remember the unwritten "Grandfathered" Exceptions for designated beneficiaries who inherited before 2020

*Flexibility occurs when the IRA owner dies before the Required Beginning Date (RBD). Under the new IRS proposed regulations when the IRA owner dies after the RBD, RMDs would be required.

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## Spousal Beneficiary has the Most Options

Assuming Surviving Spouse = 100% Primary Beneficiary

**RMDs Depend Upon 1 of 3 Options Selected by the Spouse**

1. Remain as beneficiary (Inherited IRA)
2. Election to treat account as own
3. Spousal rollover to Spouse's own IRA

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## Spousal Beneficiary Case Study 1

**Example: Younger Spouse Inherits IRA in 2020 and Needs Cash**

Jim & Joan are married. Jim dies at age 75 (after his RBD) and leaves his IRA to Joan age 57. Joan chooses to do an Inherited IRA instead of a Spousal Rollover

1. Joan will have to take an annual RMD
2. Joan will avoid the 10% early withdrawal penalty on additional distributions
3. At age 60, Joan does a spousal rollover into her own IRA and RMDs will not be required until age 75



## Spousal Beneficiary Case Study 2

**Example: Older Spouse Inherits IRA in 2020 and is tax sensitive**

Tom & Tina are married. Tina dies at age 64 (before her RBD) and leaves her IRA to Tom age 74. Tom chooses to do an Inherited IRA instead of a Spousal Rollover

1. Tom will NOT have to take an annual RMD until Tina would have reached her RBD
2. Tom will still have access to funds without a 10% penalty
3. At Tom's age 82, when Tina would've reached age 72, Tom does a spousal rollover into his own IRA

## Inherited IRA – RMD Best Practice (Step 1)

- Determine if the deceased IRA owner was subject to RMDs as of year of death depending upon their Required Beginning Date (RBD)
- If so, be sure total RMD amount was taken
- If it was not taken, be sure it is distributed ideally by December 31 of that same year*

**Otherwise by tax filing deadline of the following year.*

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## Inherited IRA – RMD Best Practice (Step 2)

- If multiple beneficiaries exist, split accounts by 12/31 of year following year of death
- Determine the type of beneficiary or beneficiaries
  - Non-Designated Beneficiary (NDB)
  - Non-Eligible Designated Beneficiary (NEDB)
  - Eligible Designated Beneficiary (EDB)

**Speak to your tax and financial advisor*

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## Inherited IRA – RMD Best Practice (Step 2 cont'd)

### Type: Non-Designated Beneficiaries (NDB)

| Type of Beneficiary | If Account Owner Dies ***Before*** Required Beginning Date (RBD) | If Account Owner Dies ***After*** Required Beginning Date (RBD) |
|---|---|---|
| Non-Designated Beneficiary (NDB)<br>(Not people – Estate, Charity, Non-Qualifying Trusts) | **5-Year Rule**<br>No annual required distributions but account must be emptied by the end of the fifth year after the year of the account owner's death | **The "Ghost" Rule**<br>Stretch payments are made to the non-designated beneficiary over the remaining single life expectancy of the deceased account owner, had he/she lived. RMDs apply annually under the ghost rule. |

Take RMDs "at least as rapidly" as required per type of beneficiary (NDB, NEDB, EDB) and depending on if the deceased IRA owner died before or after the RBD

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## Inherited IRA – RMD Best Practice (Step 2 cont'd)

### Type: Non-Eligible Designated Beneficiary (NEDB)

| Type of Beneficiary | If Account Owner Dies ***Before*** Required Beginning Date (RBD) | If Account Owner Dies ***After*** Required Beginning Date (RBD) |
|---|---|---|
| Non-Eligible Designated Beneficiary (NEDB)<br>(All designated beneficiaries who do not qualify as EDBs) | **10-Year Rule**<br>No annual required distributions but account must be emptied by the end of the tenth year after the year of the account owner's death | **10-Year Rule**<br>Annual required distributions required in years 1-9 of the 10- year period. Account must be emptied by the end of the tenth year after the year of the account owner's death. |

Take RMDs "at least as rapidly" as required per type of beneficiary (NDB, NEDB, EDB) and depending on if the deceased IRA owner died before or after the RBD

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## Inherited IRA – RMD Best Practice (Step 2 cont'd)

Type: Eligible-Designated Beneficiaries (EDB)

| Type of Beneficiary | If Account Owner Dies ***Before*** Required Beginning Date (RBD) | If Account Owner Dies ***After*** Required Beginning Date (RBD) |
|---|---|---|
| Eligible Designated Beneficiary (EDB)<br>(5 classes of EDBs: 1) Spouse, 2) Minor Children to age 21 - but not grandchildren 3) Chronically Ill, 4) Disabled – under IRS strict rules, 5) Individuals not more than 10 years younger than the IRA owner ) | **Stretch IRA RMDs Apply OR Choice of 10-Year Rule**<br>Stretch distributions based on the life expectancy of the beneficiary. **Use Single Life Expectancy Table**, look up attained age in the year after account owner's death to get factor. **Factor is reduced by one in each subsequent year (for non-spouse). Or 10-Year Rule with no annual RMDs, but account must be emptied by the end of the 10th year.** | **RMDs Apply (No 10-Year Rule Option)**<br>Required Minimum Distributions based on the life expectancy of the younger of the account owner or the beneficiary. **Use Single Life Expectancy Table**, look up attained age in the year after account owner's death to get factor. **Factor is reduced by one in each subsequent year (for non-spouse).*** |

Take RMDs "at least as rapidly" as required per type of beneficiary (NDB, NEDB, EDB) and depending on if the deceased IRA owner died before or after the RBD

**You can compare the factor for the beneficiary to the factor for the deceased account owner and use the larger of the two factors to calculate the RMD.*



## Inherited IRA – RMD Rule (Step 3)

- Depending on the beneficiary "type" select the proper strategy (usually Stretch IRA or 10-Year Rule)
- Determine if and when an RMD is necessary
- Be certain to use the proper table and proper calculation for determining the appropriate RMD(s)
- Initiate the RMD(s) with the IRA custodian(s)

**Speak to your tax and financial advisor*

## Calculating Your RMD for Inherited IRAs Using Single Life Table

### For "Non-Spouse"Beneficiary

1. Obtain account prior year-end balance.
2. Look up attained age in year after IRA account owner's death on table to get factor*.
3. Factor is reduced by 1 in each subsequent year.
   ***Note:*** *Do not use a new factor from the table each year.*

| Single Life Expectancy Factors shown here as an example for Ages 50–57* | |
|---|---|
| Age of IRA Beneficiary | Life expectancy in years |
| 50 | 36.2 |
| 51 | 35.3 |
| 52 | 34.3 |
| 53 | 33.4 |
| 54 | 32.5 |
| 55 | 31.6 |
| 56 | 30.6 |
| 57 | 29.8 |

**Single life table is generally for "inherited" IRAs.*
*Use the uniform life table for IRAs and plan assets instead.*
*Consult with your tax and financial advisor.*

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## Calculating Your RMD for Inherited Roth IRAs

### For "Roth IRA"Beneficiaries

- Surviving spouse is able to rollover deceased spouse's Roth IRA to his/her own Roth IRA. **-No RMDs apply**.
- Eligible Designated Beneficiaries (EDBs) can stretch distributions using Single Life Expectancy table.
- Non-Eligible Designated Beneficiaries (NEDBs) are subject to the 10 Year Rule:
  - ✓ Account must be emptied by end of 10th year after account owner's death.
  - ✓ However, RMDs during the 10-year period are required if deceased IRA owner died after RBD

| Single Life Expectancy Factors shown here as an example for Ages 50–57* | |
|---|---|
| Age of IRA Beneficiary | Life expectancy in years |
| 50 | 36.2 |
| 51 | 35.3 |
| 52 | 34.3 |
| 53 | 33.4 |
| 54 | 32.5 |
| 55 | 31.6 |
| 56 | 30.6 |
| 57 | 29.8 |

** Single life table is generally for "inherited" IRAs/Roth IRAs.*
*Use the uniform life table for IRAs and plan assets instead. Consult with your tax and financial advisor"*

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## Inherited IRA Case Study

**Example: Younger Sister Inherits IRA in 2024 and is Still Working**

Pam and Paula are sisters. Pam dies at age 55 (before her RBD) and leaves her IRA to Paula age 50.

**Is Paula limited to the 10-Year Rule? Yes/No?**

1. No! Pam was "older" thus, by default not more than 10 years younger, so Paula is an EDB.
2. Paula will be able to choose to stretch distributions over her life OR select the 10-Year Rule
3. Since it is an Inherited IRA, Paula can take out more money without paying a 10% Penalty

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# What about RMDs

# after the

# Inherited IRA's beneficiary dies?

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# The "Successor" Beneficiary

## Generally subject to the 10-Year Rule

## when inherited in 2020 or later

There are exceptions. Consult with your tax advisor.

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## Summary Action Plan of What You Can Control

- **No substitute for having a comprehensive retirement distribution plan. Review your:**
    - ✓ Cash Flow Projections
    - ✓ Income Tax Projections
    - ✓ Net Worth Projections
    - ✓ Estate Plan Tax Projections
- Consider building a customized distribution plan based upon your income needs, leveraging tax diversification of your assets to your advantage
- **Review the new SECURE Act changes. May be more reason than ever to consider converting IRAs to Roth IRAs**

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## Proactive Questions to Consider Carefully with your Advisor(s)

- Do I have a "distribution" plan to reduce the tax issues on my IRA, 401(k) or other retirement accounts?
- Should I begin doing Roth IRA Conversions now for myself and/or my family?
- Back to basics: Do you “still” qualify for life insurance?
- How will the SECURE Act changes impact the RMDs to my beneficiaries?
- Have I reviewed my beneficiary designation forms lately?
- Do I know the rules for an inherited IRA, Roth IRA or retirement account? – If not, TOUCH NOTHING!



## The BIG Takeaways

- Taxes are the biggest factor keeping people from their retirement dreams
- The score at half-time doesn’t matter!
- IRAs have essentially been downgraded for legacy planning
- Congress changed the rules, it might be time to change your plans
- Done properly, you can benefit from most important things people want from their IRAs!
  - ✓ More Control
  - ✓ More Net Worth
  - ✓ More Cash Flow
  - ✓ More Inheritance
  - ✓ **More of it Tax-Free!**

## Many Happy Travels and Safe Returns in Retirement!

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## Thank you!

# Questions?

<u>Disclosure</u>

*This material is for general information only and is not intended to provide specific advice or recommendations for any individual. To determine what is appropriate for you, please consult a qualified professional.*

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## Follow-up Questions

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