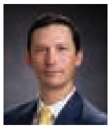
October 2021 | Volume 6 | Issue 3

FINE POINTS

The Quarterly Trust Publication of FineMark National Bank & Trust

REVISITING THE SECURE ACT



By Read Sawczyn
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On December 20, 2019, President Trump signed the Setting Every Community Up for Retirement Enhancement Act ("Secure Act") into law. The Secure Act was signed in the middle of the holiday season and was tucked into a 1,700 page, $1.4 trillion act. Shortly thereafter, the Coronavirus pandemic consumed the nation's attention and spurred its own temporary legislative changes. Now that we are approaching the end of the pandemic spending it is a good time to revisit how the Secure Act changed the retirement plan landscape.

Prior to the enactment of the Secure Act, a traditional IRA owner had to start taking required minimum distributions at age 70 ½. Under the new act, a traditional IRA account owner is not required to take minimum distributions until age 72. The carrot; now for the stick. Before the Secure Act, most beneficiaries could "stretch" their required minimum distributions from inherited IRAs over their lifetime. Now, most beneficiaries must take all of the funds out of the inherited IRA within 10 years of the original owner's date of death. As expected, there are some exceptions to the 10-year rule. The exceptions apply to the surviving spouse, persons not more than 10 years younger than the original owner, minor children of the owner, and disabled or chronically ill individuals.

Because of the limited nature of the exceptions, the rest of this article focuses on the 10-year rule. Unlike required minimum distributions, the 10-year rule provides that all funds in the IRA must be removed before the end of the 10th year as compared to having to take a minimum amount out each year. Thus, the beneficiary can choose which years to take distributions. Unfortunately though, if you have a large IRA and few beneficiaries, this can cause the beneficiaries' taxable income to increase substantially.

Due to the tax changes created by the Secure Act, traditional IRA owners should revisit their estate and tax planning. For example, IRA owners could consider leaving charitable bequests from traditional IRAs, instead of from other funds. They might also consider increasing their traditional IRA distributions or converting some traditional IRA funds to Roth IRA funds. These strategies could prove beneficial if the current account owner has retired, but has not yet started taking required minimum distributions.

Please contact your FineMark advisor if you are interested in discussing how these changes impact you and your estate and tax planning.