DESERT LAW GROUP

LAWYER FOR *Life*

KEEPING YOUR FAMILY HEALTHY, WEALTHY & WISE

IN THIS ISSUE

First Quarter 2020

HOW THE SECURE ACT WILL IMPACT RETIREMENT AND ESTATE PLANNING

The Setting Every Community Up for Retirement Enhancement Act of 2019, also known as the SECURE Act, took effect on January 1st, 2020. It will impact the way many Americans plan for retirement and manage their retirement accounts. The SECURE Act provides new opportunities to boost retirement savings, but it also presents planning challenges for those who inherit IRAs, 401(k)s and other retirement accounts.

Let's take a look at the SECURE Act's key changes, starting with two involving Required Minimum Distributions (RMDs).

The required minimum distribution age has changed from 70 ½ to 72. In the past, retirement account owners had to begin withdrawing funds when they turned 70 ½. The SECURE Act postpones this to age 72, giving workers 18 more months to enjoy the tax benefits provided by retirement accounts before required withdrawals kick in.

However, pushing out RMDs without changing the life expectancy tables will cause retirees to have higher RMDs, which in turn could increase taxes and Medicare premiums for some.

Mandatory distributions on inherited accounts. Under the SECURE Act, individuals who inherit an IRA will have to draw down 100% of its assets within 10 years. This is a significant change. Before the SECURE Act, inherited IRAs could be drawn down over the course of the beneficiary's life expectancy. Many IRA beneficiaries will now lose the opportunity to stretch the value of the IRA and benefit from potential tax breaks. The SECURE Act does contain exceptions for the spouse, chronically ill or disabled beneficiaries, minors, and beneficiaries who are 10 years (or less) younger than the original account owner.

(CONT.)

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How The SECURE Act Will Impact Retirement And Estate Planning (Cont.)

Now let's look at some other changes that benefit certain individuals and present opportunities to save more for retirement.

No age restrictions on IRA contributions. Before the SECURE Act, contributions to traditional IRAs by workers age 70½ and older were prohibited. This restriction has been eliminated. (There are currently no age-based restrictions on contributions to a Roth IRA.) For 2020, workers who are 50 years of age or older can contribute up to $7,000 annually while workers under age 50 can contribute up to $6,000.

Penalty-free withdrawals for new parents. The SECURE Act allows withdrawals of up to $5,000 from 401(k)s, IRAs, and other retirement accounts within one year of the birth or adoption of a child without paying a 10% early-withdrawal penalty. However, such withdrawals will still be subject to income taxes unless the withdrawals are repaid to the retirement account.

The SECURE Act makes it easier for 401(k) plan sponsors to offer annuities and other "lifetime income" options to plan participants by eliminating some of the associated legal risks. Also, 401(k) plan administrators must provide annual "lifetime income disclosure statements" to plan participants showing how much money would be received each month if the participant used the total 401(k) account balance to purchase an annuity.

Auto-enrollment 401(k) plans have been enhanced. The SECURE Act increases the 10% cap on Qualified Automatic Contribution Arrangements (QACAs) to 15% after a worker's first year of participation. This allows companies offering QACAs to put more money into their workers' retirement accounts.

401(k)s for part-time employees. In the past, employees who didn't work at least 1,000 hours per year usually weren't allowed to participate in their employer's 401(k) plan. The SECURE Act guarantees 401(k) plan eligibility for employees who have worked at least 500 hours per year for at least three consecutive years.

Assistance to small businesses that offer retirement plans. The SECURE Act has three provisions designed to help small businesses offer retirement plans for their employees.

1. An increased tax credit is available to cover 50% of a small business's retirement plan start-up costs. Previously, the credit was limited to $500 per year. The SECURE Act increases the maximum credit amount to $5,000.

2. A new $500 tax credit on small business start-up costs for new 401(k) plans and SIMPLE IRA plans that include automatic enrollment. The credit will also be available to small businesses that convert an existing retirement plan to an auto-enrollment plan.

3. Unrelated employers can now participate in a multiple-employer plan and have a "pooled plan provider" administer it. This provision will allow small businesses to leverage economies of scale not otherwise available to them, lowering administrative costs.

**It's always a good idea to keep your estate plan up-to-date.
Given the SECURE Act's many changes, this could be an excellent time to have us review your plan.**

Roth IRAs Are Remarkably Flexible Retirement Planning Tools

Perhaps you are wondering if you should put retirement savings into a traditional IRA or a Roth IRA. The following facts about Roth IRAs may surprise you and influence your decision.

Roth IRA contributions can be used in an emergency.

While nobody wants to withdraw money from their retirement savings, it's reassuring to know that Roth IRAs provide access to cash in an emergency. Since Roth IRA contributions are not deductible, they can be withdrawn for any reason, at any time, without penalties or taxes. It's worth mentioning, however, that this option does not apply to funds converted to a Roth IRA or investment gains. If you put $5,000 into a Roth IRA and it grew to $7,000 over time, you can only withdraw the initial $5,000 without penalty.

Roth IRAs do not have RMDs.

Roth IRAs do not require you to withdraw money at a certain age, so you don't have to worry about paying a significant amount in taxes after making a required minimum distribution. Even though non-spouse heirs must take required distributions from inherited Roth IRAs, at least they will be tax free.

You are permitted to roll after-tax 401(k) contributions into a Roth IRA.

Many employer retirement plans allow you to make after-tax contributions. At retirement, these after-tax contributions can be rolled into a Roth IRA. While investment gains on after-tax contributions can't go into a Roth IRA, original contributions can.

Your employer's retirement plan might allow for Roth IRA contributions.

Many 401(k) plans now permit Roth IRA contributions. These plans are called Designated Roth Accounts. Some of them allow you to contribute to both a 401(k) and a Roth IRA while others require you to choose between the two.

You can benefit from contributing to both a Roth IRA and a traditional IRA.

If your Modified Adjusted Gross Income (MAGI) is within Roth IRA limits, which are currently $139,000 for a single filer and $206,000 for a couple filing jointly, you can contribute to both a Roth IRA and a traditional IRA. This approach allows you to reduce taxable income now using the traditional IRA and have access to tax-free benefits from the Roth IRA in retirement.

You may be allowed to make a spousal Roth IRA contribution.

Even if your spouse does not earn income, you might be able to make a contribution to your Roth IRA on his or her behalf. This can allow couples to double the amount of contributions they can make to a Roth IRA each year.

Is a Roth IRA right for you? Factors to consider include your income, your tax rate now, and your expected tax rate in retirement. If your tax rate during retirement will be the same or higher than it is now, which is often the case for people with large IRAs or 401(k)s, a Roth IRA may be a good choice. Of course, you must meet the MAGI requirement mentioned earlier to be eligible for a Roth IRA. It is worth noting that Roth conversions can be complicated and mistakes could be costly. It's important to speak with a professional about your particular situation and retirement objectives.

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A Personal Note From Kimberly

Dear Clients and Friends:

As we march into year 2020, we wish you and your loved ones a wonderful holiday. Thank you for all your kind referrals this past year. It is the ultimate compliment we can receive.

As mentioned in this Newsletter, the SECURE Act has drastically changed the landscape in retirement planning. If you have any type of retirement account, including IRA, 401k, 403b, Profit Sharing plan, etc., you must have your existing planning reviewed and updated. One of the best times to do this is NOW. Due to this change that impacted all our clients who have retirement accounts, we are currently offering special discount to update the changes needed due to the SECURE Act. We are here for you and welcome the opportunity to speak with you in person at your earliest convenience.

Kindest regards,

Kimberly