

CONSIDER THE IMPORTANCE

Securing your Understanding of the SECURE Act

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THE SECURE ACT

In December 2019, the Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law. The world of estate planning unfortunately had only a few months to process this important new regulation before attention naturally shifted to the COVID-19 pandemic and its related legislation. Let's revisit the SECURE Act and the significant effects it can have on estate planning.

On its face, the SECURE Act was designed to enhance options for saving and investing for retirement. Incentivizing 401(k) plans, delaying the Required Minimum Distribution (RMD) age from 70 ½ to 72, and removing the age limit for contributions to Traditional IRAs were all positive effects of the SECURE Act. Like most new legislation, however, the devil is in the details, and these advancements are funded and offset by changes to the rules of how Traditional IRAs operate after an owner has died.

STRETCH NO MORE

Prior to the SECURE Act, the post-death value of Traditional IRAs could be "stretched" by beneficiaries over their lifetimes. So, a child who inherited a parent's IRA could spread the payout of the IRA over many years, allowing more time for the assets to grow and reducing the taxable impact for RMDs. To accelerate taxation on these assets, the SECURE Act did away with the stretch, and (with a few exceptions) IRAs inherited by non-spouses must now be fully depleted within 10 years of the account owner's death.

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What effect does this have on IRAs as a wealth transfer tool? Well, the shortened time period for post-death asset growth will limit the ultimate value for the next generation. Moreover, the 10-year withdrawal timeframe will likely have a significant impact on a beneficiary's income tax liability, since they are now required to take more sizeable taxable distributions to deplete the account.

WHERE DO WE GO FROM HERE?

While the SECURE Act is not a “run for the hills” situation and does offer benefits during an IRA owner's lifetime, it is important to recognize that it likely creates a suboptimal estate planning scenario from a wealth transfer perspective. IRA owners who take no more than their Required Minimum Distributions with the intent of leaving as much as possible for the next generation might be surprised to learn that a lot may be left on the table given this new framework.

By speaking with a qualified estate planning specialist, IRA owners can navigate this new retirement landscape and re-optimize their strategy for transferring wealth to the next generation in the most tax-efficient ways. For example, an IRA Maximization plan can help to balance the scales by leveraging RMDs to fund life insurance that will offset the wealth transfer reduction of the SECURE Act, or even increase the net legacy to heirs. The bottom line is that the SECURE Act makes it imperative to conduct a thorough review of your clients' estate and legacy planning.

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