YOUR GUIDE ON THE

SECURE ACT 10 YEAR RULE

FONTANA
FINANCIAL PLANNING

WHAT IS THE **IRA 10 YEAR RULE** AND HOW CAN I PLAN AROUND IT?

The SECURE Act of 2019 brought about the death of the popular stretch IRA and with it complicated the estate and tax planning landscape for many families that have accumulated significant assets in IRA accounts. Previously, most beneficiaries of an IRA were able to “stretch” required minimum distributions over their entire lifetime allowing them to control when distributions and the subsequent taxes were realized for the most part. Now, most beneficiaries are subject to a ten year withdrawal rule that requires that the entire account be distributed by the end of the tenth year following the year of death.

EXAMPLE OF THE IMPACT OF THE NEW TEN YEAR RULE **WITHOUT PROPER PLANNING**:

John has accumulated $2 million in his IRA and lives a relatively modest lifestyle where he typically falls in the 24% tax bracket. His son Mark is a high earning physician that is in the top tax bracket (37%) and also lives in California where he is in the 12.3% state income tax bracket. John passes away and leaves 100% of his IRA to Mark who is subject to the 10 year rule. Mark is forced to withdraw all the funds in the 10 years following his fathers passing and because he is in the top federal and state bracket all of the distributed funds will be subject to a total tax rate of 49.3% or nearly $1 million.

Certain groups do qualify for the stretch treatment, including spouses (if they choose not to rollover to their own IRA), disabled persons, chronically ill individuals, beneficiaries not more than 10 years younger than the decedent, and minor children of the decedent (for the time until they reach the age of majority). Additionally, certain "non-designated beneficiaries" are subject to an accelerated five year rule including charities, certain trusts, and your estate (naming your will or having no beneficiaries listed). This magnifies the importance of making sure all retirement accounts have a listed beneficiary so you do not leave a tax bomb for your loved ones.

IRA BENEFICIARIES AFTER THE SECURE ACT

Beneficiary

Eligible Designated Beneficiary (Stretch Still Applies)	Designated Beneficiary (10-Year Rule)	Non-Designated Beneficiary (5-Year Rule)
Minor Children* of Decedent	Non-Spouses	Charities
Disabled Persons	Certain Trusts	Your Estate (Naming Your Will)
Chronically Ill		Certain Trusts
Not More Than 10 Years Younger		
Spouses		
Certain Trusts		

*Only applicable until the minor reaches the age of majority

© Michael Kitces, www.kitces.com

Below we have outlined various planning strategies to consider to minimize the tax impact that the SECURE Act potentially brings about, including:

ROTH CONVERSIONS

Those with large IRA balances may evaluate their current tax bracket compared to the likely bracket their inheritors will find themselves in and intentionally pay taxes on funds now if the rates are favorable by converting them to a Roth IRA. This strategy may be particularly useful if you are recently retired and find yourself in an unusually low bracket.

ROTH CONTRIBUTIONS

Individuals that are still working and have accumulated significant IRA balances can utilize Roth options in their 401(k) and IRA to achieve tax diversification and lessen the impact that the SECURE Act may have on retirement assets.
Qualified Charitable Distributions – Utilizing this strategy, charitably inclined individuals over the age of 70.5 can gift to a charity directly from their IRA tax free allowing them to get a tax break, reduce their IRA balance, and use those funds towards their required minimum distribution if applicable.

CHARITABLE REMAINDER UNITRUSTS

For individuals that would like to leave a potentially significant sum to charity, this strategy can be used to create a “synthetic stretch” by designating that a fixed percentage of assets be paid to one or more beneficiaries for a certain number of years or until death with the remainder going to a charity of the grantors choice. This strategy can have many complicated rules and requirements and significant estate planning is necessary before utilizing this option.

LIFE INSURANCE

A life insurance policy can be used to provide a tax free lump sum to beneficiaries to offset the tax cost associated with inheriting a large IRA. Utilizing an 'Irrevocable Life Insurance Trust', an individual can also remove the life insurance proceeds from their estate if they potentially have an estate tax issue. Depending on the insured's age, health status, and the type of insurance purchased this could potentially be an expensive strategy to utilize.

REVIEW BENEFICIARY DESIGNATIONS AND DETERMINE IF TRUST BENEFICIARIES ARE STILL APPROPRIATE

Prior to the SECURE Act, trust beneficiaries and trusteed IRA's were a common estate planning tool used with IRA's. The new rules may change the ability to fulfill the intentions of the original owner and could even lead to a large, unintended tax nightmare. Any estate plans utilizing trusts created before the SECURE Act and Tax Cuts and Jobs Act should be reviewed to determine whether they are still appropriate and will lead to the desired outcome.

The SECURE Act has wide-reaching impacts on retirement savings, tax planning and estate planning for many Americans. Be sure to consult your financial advisor and tax professional for guidance on what this new law means for you.

Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its own five-year holding period. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.

Please note, changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of RJFS, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional.

This case study is for illustrative purposes only. Individual cases will vary. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Prior to making any investment decision, you should consult with your financial advisor about your individual situation.

Not all strategies are suited for all investors.Prior to making an investment decision, please consult with your financial advisor about your individual situation.

The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Any opinions are those of the author and not necessarily those of Raymond James.

Life insurance policies have exclusions and/or limitations. The cost and availability of life insurance depend on factors such as age, health and the type and amount of insurance purchased.As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Guarantees are based on the claims paying ability of the insurance company.

QUALIFIED CHARITABLE DISTRIBUTIONS

Many charitably inclined retirees find themselves in a position where they are no longer itemizing their taxes and getting the tax benefits of large charitable donations. At the same time, they may find themselves with concerns about the size of their IRA and the tax impact of the 10 year rule. For those retirees, a qualified charitable distribution (QCD) will allow them to receive a tax break for their charitable giving and reduce the size of their IRA.

This strategy is available for IRA accounts only (no 401(k)'s, 403(b)'s, etc.) and the owner must be over the age of 70.5. If these requirements are met, up to $100,000 can be donated per person per year directly from the IRA to the charity. These distributions will not be subject to income taxes and for those who have reached RMD age the distribution counts towards their required distribution for the year.

QUALIFIED CHARITABLE DISTRIBUTIONS EXAMPLE:

Larry has a $3 million IRA account with a $131,000 required distribution and due to a generous pension and other sources of income he is in the 35% tax bracket and does not need the funds from the withdrawal. He would like to gift $100,000 to his church as a qualified charitable distribution. By doing so, he can save himself $35,000 in taxes and reduce his required distribution to $31,000.

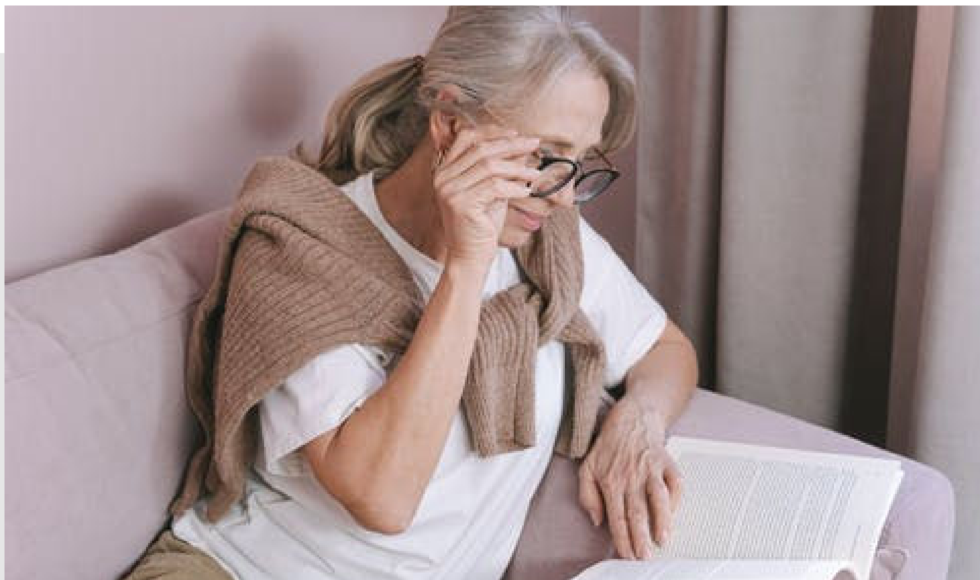
ROTH CONVERSION STRATEGY

A large hurdle for those over the age of 72 to be able to pursue the Roth conversion strategy is the requirement to first take their entire required minimum distribution first. Utilizing the qualified charitable distribution strategy in conjunction with the Roth conversion strategy, a retiree can more effectively manage their tax rate, make the charitable donation they desire to make, and convert assets at a lower tax rate than they otherwise could have.

ROTH CONVERSION STRATEGY EXAMPLE:

Sue has a $2 million IRA account and sufficient non-retirement assets to cover her living expenses for the year. Concerned about the impact of the 10 year rule on her beneficiaries, she would like to begin converting assets to Roth but her $78,125 required distribution is a large tax hurdle. She would like to make a gift of $50,000 to a charitable organization she has become deeply involved in and utilizes a qualified charitable distribution to do so. Following the completion of the QCD, she will only be required to withdraw the remaining $28,125 as income and then can convert assets. By avoiding the $50,000 in income, her CPA projects that she can convert $50,000 and stay within the 22% tax bracket.

For those that are charitably inclined a QCD is a way to ensure you receive a tax break on your gifting. Those that are interested in complex QCD strategies will be best served by consulting with their financial planner and CPA to understand the impact on their situation.



The SECURE Act has wide-reaching impacts on retirement savings, tax planning and estate planning for many Americans. Be sure to consult your financial advisor and tax professional for guidance on what this new law means for you.

Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its own five-year holding period. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.

Please note, changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of RJFS, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional.

This case study is for illustrative purposes only. Individual cases will vary. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Prior to making any investment decision, you should consult with your financial advisor about your individual situation.

Not all strategies are suited for all investors. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Any opinions are those of the author and not necessarily those of Raymond James.

ROTH CONVERSIONS

Those that have accumulated significant assets in pre-tax retirement accounts may find themselves in a position where required distributions – both for themselves upon reaching age 72 and their beneficiaries that may be subject to the 10 year rule – can be significantly more than what they need forcing them into a much higher tax bracket.

By thinking strategically realizing income when it is advantageous to do so, IRA owners can reduce the amount of their funds that go towards taxes and increase the amount that goes towards themselves and their loved one. One of the best ways to do this is through a Roth conversion.

Retirees who know their beneficiaries will be taxed in a higher bracket than them (after factoring in the compressed ten year withdrawal window) can convert pre-tax monies to a Roth IRA and strategically pay taxes at their lower rate. A Roth conversion gets added to your income every year and gets taxed at your rate for the year and then becomes tax free for you and your beneficiary regardless of size assuming the Roth IRA five year rule has been met. For those individuals that have reached RMD age, they must take their required distribution before completing a conversion.

ROTH CONVERSIONS EXAMPLE:

John decides he will begin completing Roth conversions up to the top of the 24% bracket each year and after speaking with his advisor and CPA determines that amount to be $50,000. He is able to complete these conversions for eight years before passing away and leaving his funds to his son Mark. During this time, he was able to convert a total of $400,000 all at a 24% tax rate saving his son $101,200 in taxes (when compared to the 49.3% rate his son will be taxed at) and leaving a Roth IRA that can compound for ten years before it needs to be withdrawn tax free by his son.

Often times, Roth conversion can make sense for those that have entered the retirement tax planning window but can also make sense for those still working if income or tax rates are expected to rise or to allow for the backdoor Roth strategy to be used among other reasons.

The SECURE Act has wide-reaching impacts on retirement savings, tax planning and estate planning for many Americans. Be sure to consult your financial advisor and tax professional for guidance on what this new law means for you.

Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its own five-year holding period. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.

Please note, changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of RJFS, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional.

This case study is for illustrative purposes only. Individual cases will vary. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Prior to making any investment decision, you should consult with your financial advisor about your individual situation.

Not all strategies are suited for all investors. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Any opinions are those of the author and not necessarily those of Raymond James.

ROTH CONTRIBUTIONS

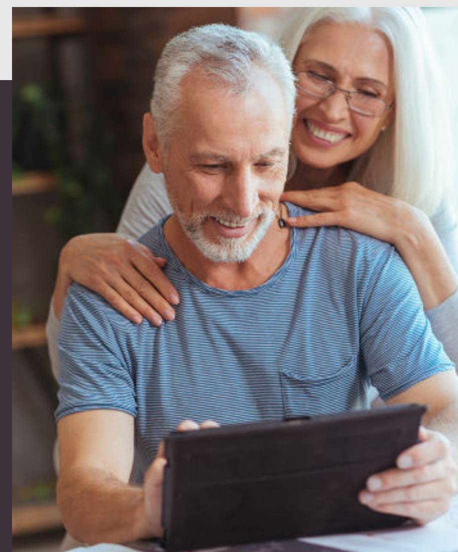
Those individuals that are still working and saving towards retirement may want to consider shifting some or all of their retirement contributions to Roth options if the pre-tax portion of their investment portfolio is getting exceedingly large. Tax diversification is the concept that an ideal portfolio will have a good mix of pre-tax, taxable, and Roth investments as each allows for flexibility in deciding when and how to realize income in retirement.

Often times, savers do not recognize the deferred tax liability that is built up in their IRA or the lack of flexibility they may have to manage their tax rates if all or most of their savings is in the form of pre-tax retirement assets. That tax liability can become significantly increased if the account becomes subject to the compressed 10 year withdrawal window for most beneficiaries brought about by the SECURE Act.

While Roth accounts are still subject to the SECURE Act withdrawal rules, the withdrawals from those accounts will be tax free for the beneficiary assuming holding requirements have been met. If funds are not needed beforehand, a beneficiary can let the inherited Roth grow tax-deferred for the ten years before withdrawal is required and then take the entire sum tax free in the final year.

ROTH CONTRIBUTIONS EXAMPLE

While working John made Roth contributions that grew to a value of $1 million prior to him passing away and leaving the account to his only son David. David did not need the funds for immediate use and chose not to withdraw any funds until required to do so in the tenth year following the year of his fathers passing. During that time, he earned a 7% return on average which allowed the inherited Roth to grow to a value of $1,967,151. David can withdraw the entire balance completely tax free at that time.



If you are already saving the maximum amount in your Roth 401(k) and a Roth IRA – either through a direct contribution or by completing a backdoor Roth, you can look into the possibility of completing a mega-backdoor Roth into your 401(k). With this strategy, you can save up to $58,000 per year ($64,500 if over age 50) into your 401(k). By utilizing all available options and if their plans allowed, a married couple over 50 could save up to $143,000 per year into their retirement accounts with most of that being Roth money.

The SECURE Act has wide-reaching impacts on retirement savings, tax planning and estate planning for many Americans. Be sure to consult your financial advisor and tax professional for guidance on what this new law means for you.

Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its own five-year holding period. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.

Please note, changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of RJFS, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional.

This case study is for illustrative purposes only. Individual cases will vary. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Prior to making any investment decision, you should consult with your financial advisor about your individual situation.

Not all strategies are suited for all investors. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Any opinions are those of the author and not necessarily those of Raymond James.

REVIEW BENEFICIARY DESIGNATION AND DETERMINE IF TRUST BENEFICIARIES ARE STILL APPROPRIATE

Prior to the SECURE Act being signed into law, the use of certain types of trusts as beneficiaries was fairly common as an estate planning tool. Many of those trusts and the language that they used may no longer be effective and may even represent a giant tax trap for the beneficiaries under the new rules.

In order for a trust to receive either the ten year or stretch payout for eligible designated beneficiaries the trust must be a “See-Through Trust”. All other trusts are subject to the accelerated five-year payout and could potentially be taxed at trust tax rates that reach the max 37% federal bracket at just $13,050 in income.

There are two types of “See-Through” trusts – conduit trusts and discretionary trusts (also known as accumulation trusts). Conduit trusts serve as a conduit between the IRA and the beneficiary, allowing funds to be paid out directly to the beneficiary and thus taxed at the individual’s income tax rate. These trusts pay out only RMDs and therefore a beneficiary subject to the 10-year rule would not be able to access the funds until year 10 and then be forced to withdraw the entire sum unless additional provisions were added.

SEE THROUGH TRUSTS EXAMPLE:

George had an IRA account with $1 million and named a conduit trust that only allows for RMDs to be taken as the beneficiary on his account with his daughter Georgina as the trust beneficiary when he passes away. Because Georgina is subject to the 10-year rule, she does not have any RMD’s until year 10 at which point she must withdraw the entire amount and pay taxes at her income tax rate. During the 10 years, the trust grows from $1 million to $2 million and in the year of withdrawal she will realize that full amount as income with most of the funds being taxed at the top tax rate of 37%.

Discretionary Trusts give the trustee the power to pay out funds to the trust beneficiaries or hold and protect the funds in the trust. Any funds held in the trust would be taxed at trust tax rates, which currently reach the top 37% tax bracket after just $13,050 in income. For a beneficiary subject to the 10-year rule, any funds not withdrawn by year 10 will have to be withdrawn and either paid to the beneficiary directly (at their tax rate) or into the trust (at trust tax rates).

DISCRETIONARY TRUSTS EXAMPLE:

Sam has an IRA account with $1 million and lists a discretionary trust as the beneficiary on the account with her daughter Janet as the trust beneficiary. Sam passes away and in the 10th year following her death the inherited IRA has a balance of $1.5 million. The funds must either be distributed directly to Sam (where they are no longer protected by and subject to the trust) or to the trust. If the funds are paid to the trust, they will be subject to trust tax rates meaning every dollar of the $1.5 million over $13,050 will be subject to a 37% tax rate.

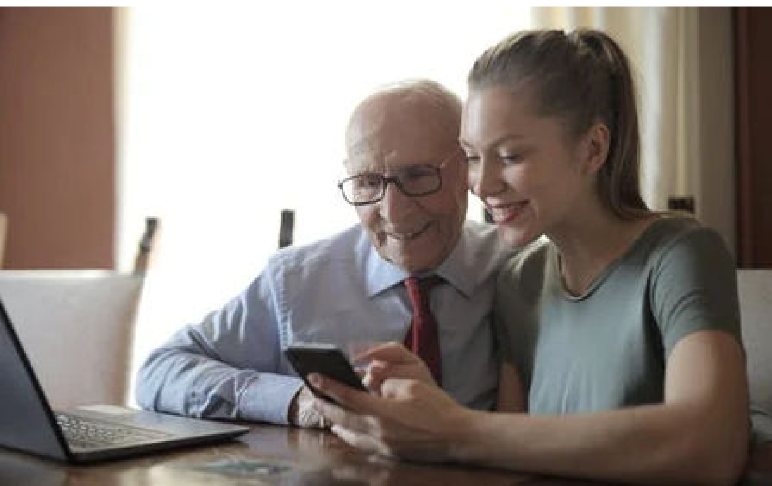
EXHIBIT A: REQUIRED MINIMUM DISTRIBUTIONS RULES FOR TRUSTS AS IRA BENEFICIARIES

	See-Through Trusts[3]		Other Trusts
	Conduit Trust	Accumulation Trust	
Key Trust Terms	Must distribute all IRA distributions to an individual trust beneficiary when received	Allows for the accumulation of IRA distributions within the trust, rather than immediate payout	Do not meet definition of see-through trust; likely accumulate IRA distributions; identity of beneficiaries does not matter
RMD Distributions to the Trust	**For an "eligible designated beneficiary (EDB)"[4]:** Payout based on the life expectancy of the beneficiary (stretch IRA rules still apply) **For a beneficiary that is not an EDB:** 10-year Rule – 100% distribution to the trust within 10 years of the owner's death	10-year Rule - 100% distribution to the trust within 10 years of the owner's death[5]	**If the IRA owner dies before age 72:** 5-year Rule – 100% distribution to the trust within 5 years of the owner's death **If the IRA owner dies at age 72 or later:** Payout to the trust based on the actuarial life expectancy of the IRA owner, or the trust can elect to use the 5-year rule
Distributions to Trust Beneficiaries	Distributed immediately to conduit beneficiary after trust receives IRA distributions Results in a non-EDB receiving 100% of the IRA proceeds by the end of year 10	Trust terms govern the timing of distributions to trust beneficiaries May be different than the timing and amounts of IRA distributions to the trust	

Those that have named no beneficiary or named their will or estate as beneficiary will also want to review and update their beneficiary designations. In these circumstances, the IRA is not subject to the 10-year rule but instead becomes subject to a 5-year rule potentially magnifying the tax impact of accelerated distributions even more!

DISCRETIONARY TRUSTS EXAMPLE:

Michael has an IRA worth $1 million and does not name a beneficiary on his account. His son, Michael Jr, inherits the account as part of his estate but because he was not named as a beneficiary directly, Michael Jr will be required to withdraw the entire amount in only 5 years. Michael Jr earns $150,000 per year and chooses to take the money evenly over the 5 years to try to manage the tax impact as much as possible – taking about $200,000 per year. Even with this tax conscious approach, his marginal tax bracket still gets pushed up from the 24% rate to the 35% rate.



Adding contingent beneficiaries ensures that if something were to happen to your primary beneficiary the funds don't become subject to the 5-year rule. Additionally, it gives the primary beneficiary flexibility to disclaim the inherited funds should they not want or need them for any reason.

Consistently reviewing your estate plan as life events or laws change is always a good practice. The SECURE Act and Tax Cuts and Jobs Act both introduced major changes to the estate planning landscape and those individuals that have not reviewed their estate plan to discuss the impact of these changes on their existing documents or destinations should meet with their financial advisor and estate planning attorney to discuss whether changes may be appropriate.

Would you like to understand whether the content discussed in this post is appropriate for you and how it may fit in to your overall financial plan?

Schedule an introductory phone call with our team.

214-400-1001

The SECURE Act has wide-reaching impacts on retirement savings, tax planning and estate planning for many Americans. Be sure to consult your financial advisor and tax professional for guidance on what this new law means for you.

Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its own five-year holding period. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.

Please note, changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of RJFS, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional.

This case study is for illustrative purposes only. Individual cases will vary. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Prior to making any investment decision, you should consult with your financial advisor about your individual situation.

Not all strategies are suited for all investors. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee that it is accurate or complete, it is not a statement of all available data necessary for making an investment decision, and it does not constitute a recommendation. Any opinions are those of the author and not necessarily those of Raymond James.