Worth®

BEYOND WEALTH

WHAT IS LVMH DOING MAKING WINE IN CHINA?
The luxury powerhouse's improbable quest

TOP TECH CITIES
The 11 most exciting tech centers in the U.S.

The Jobs Creator

How Laurene Powell Jobs is shaping her future —and yours

50 WOMEN WHO ARE CHANGING THE WORLD

Ground-breaking Women

SAUGATUCK FINANCIAL

Q: Why Might I Reconsider My IRA Beneficiaries Under the SECURE Act?

PHOTO: GETTY IMAGES

BY JUSTIN CHARISE

Justin Charise, CFP®, Founding Partner, Wealth Management Advisor

SAUGATUCK FINANCIAL

On December 20th, 2019, President Trump signed into law the Setting Every Community Up for Retirement Enhancement (SECURE) Act. While the SECURE Act includes several tax law changes, one of the most significant changes was the elimination of the stretch IRA.

Under the SECURE Act, most non-spousal qualified retirement plan beneficiaries are no longer able to stretch distributions out over their life expectancies. Instead, they must withdraw the entire balance within 10 years of inheritance.[1] To better illustrate the challenges and opportunities this element of the SECURE Act presents, let's look at a few scenarios.

SCENARIO 1: A SURVIVING SPOUSE WITH ONE CHILD IN THE HIGHEST TAX BRACKET AND ANOTHER CHILD IN A MUCH LOWER TAX BRACKET

Rather than listing each child as a 50% beneficiary of each investment account, this individual might consider designating the child in a lower tax bracket as a larger beneficiary of the IRA, since that child would pay less in taxes on the IRA distributions than the child in the highest tax bracket.

Assuming this individual would like their assets evenly divided between their two children, they could offset the disproportionate IRA designation through the beneficiary designations on their non-qualified assets, which would receive a step-up in basis to the fair market value upon death.

1. Exceptions include spousal beneficiaries, chronically ill or disabled beneficiaries, and beneficiaries who are no more than 10 years younger than the original plan participant. Minor children beneficiaries are required to take RMDs based on their life expectancy until they reach age of majority, at which point the 10-year rule applies.

SCENARIO 2: A SURVIVING SPOUSE IN A LOW TAX BRACKET WITH HIGH-INCOME-EARNING CHILDREN

This surviving spouse could convert a portion of their IRA each year into a Roth IRA. The conversions would be subject to the individual's lower tax bracket, rather than the children's higher tax bracket. While the 10-year rule would still apply to the Roth IRA, the withdrawals would be tax-free.

If this individual is concerned about longevity risk, annuitizing their IRA could be another strategy worth exploring. A straight life annuity could provide lifetime income and eliminate the 10-year draw down requirement, as no assets would be transferred to a beneficiary.

SCENARIO 3: A CHARITABLY INCLINED MARRIED COUPLE OR INDIVIDUAL

The 10-year draw down requirement for non-spousal inherited IRAs under the SECURE Act makes Qualified Charitable Distributions (QCDs) from IRAs an even more interesting and relevant strategy.

QCDs are direct transfers of a portion of IRA assets to charities. They can be made once an IRA owner is 70 ½ or older (even though the Required Minimum Distribution (RMD) age increased to 72 under the SECURE Act). While QCDs count towards the current year's RMD, they are not taxable income, like a regular RMD would be. The maximum annual QCD is $100,000.

QCDs became more prevalent following the Tax Cuts and Jobs Act (TCJA) of 2017. Prior to the TCJA, many charitably inclined taxpayers itemized their deductions, thereby receiving a tax deduction for charitable donations. For those taxpayers, donating appreciated securities was often a great strategy, since the full market value at the time of the donation was a charitable contribution and they avoided paying taxes on the gain.

Following the TCJA, many taxpayers who previously itemized their deductions switched to taking the standard deduction, since the TCJA capped deductions for state and local taxes (including income and property tax); reduced the amount of principal for which mortgage interest could be deducted; and, simultaneously, increased the standard deduction.

Since a taxpayer must be at least 70 ½ to make QCDs, and since many no longer have mortgage interest to deduct at that point in their lives, taking the standard deduction has become even more common for taxpayers who are eligible to make QCDs.

Although taxpayers taking the standard deduction would typically not receive any tax benefit from their charitable donations, that same taxpayer making charitable donations via QCDs from their IRA would:

1. satisfy part or all of their RMD
2. avoid income tax on the QCD
3. reduce the amount in their IRA left to a non-spousal beneficiary and subject to the 10-year rule
4. preserve more of their non-qualified investments (since their charitable donations would be coming from their IRA, instead of appreciated securities), which receive a step-up in basis upon death

In short, these scenarios offer examples of how an informed, strategic and trusted financial advisor can help you skillfully navigate our ever-changing tax environment. Ⓦ

This article is not intended as, and financial representatives do not give, legal or tax advice. Taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

Saugatuck Financial is a marketing name for Justin Charise and Alfred R. Schor and is not a broker-dealer, registered investment advisor, federal savings bank, subsidiary or other corporate affiliate of The Northwestern Mutual Life Insurance Company, Milwaukee, Wis., including its subsidiaries, nor is it a legal partnership or entity.

Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company, Milwaukee, Wis., (NM) (life and disability insurance, annuities and life insurance with long-term care benefits) and its subsidiaries. Justin Charise is a Representative of Northwestern Mutual Wealth Management Company®, (NMWMC) Milwaukee, Wis. (investment management, trust services and fee-based financial planning), a subsidiary of NM and limited-purpose federal savings bank. All NMWMC products and services are offered only by properly credentialed Representatives who operate from agency offices of NMWMC. Charise and Schor are Insurance Agents of NM and Northwestern Long Term Care Insurance Company, Milwaukee, Wis., a subsidiary of NM, and are Registered Representatives of Northwestern Mutual Investment Services, LLC, (NMIS) (securities), a subsidiary of NM, registered investment advisor, broker-dealer and member FINRA and SIPC.

ABOUT SAUGATUCK FINANCIAL

JUSTIN CHARISE

Saugatuck Financial provides comprehensive financial planning and strategy implementation for high net worth and emerging high net worth individuals, families, businesses and institutions. SF partners with each client to create and implement a tailor-made financial plan integrating risk management, wealth management, tax strategies, estate planning and retirement income distribution planning—all under one roof. SF's advisors are consistently recognized among the top advisors within the industry, and their team takes pride in providing world-class strategies and platinum-level service to each client.

EXPERTISE

Financial Services Experience	Education	Areas of Expertise
13 YEARS	Johnson Graduate School of Management at Cornell, MBA, finance United States Military Academy at West Point, Bachelor of Science, systems engineering	Wealth management, tax strategies, insurance planning, retirement planning, income-distribution strategies, estate planning

saugatuck-financial.com | justin.charise@nm.com | 203-221-5275
274 Riverside Ave., 4th Floor, Westport, CT 06880

Justin Charise, CFP®
Founding Partner, Wealth Management Advisor

Saugatuck Financial
274 Riverside Avenue., 4th Floor
Westport, CT 06880
Tel. 203-221-5275

justin.charise@nm.com
saugatuck-financial.com

REPRINTED FROM
Worth®

Saugatuck Financial is featured in Worth® 2020 Leading Advisors™, a special section in every edition of Worth® magazine. All firms appearing in this section have completed questionnaires, have been vetted by an advisory group following submission by Worth®, and thereafter paid the standard fees to Worth® to be featured in this section. The information contained herein is for informational purposes, and although the list of advisors presented in this section is drawn from sources believed to be reliable and independently reviewed, the accuracy or completeness of this information is not guaranteed. No person or firm listed in this section should be construed as an endorsement by Worth®, and Worth® will not be responsible for the performance, acts or omissions of any such advisor. It should not be assumed that the past performance of any advisors featured in this special section will equal or be an indicator of future performance. Worth®, a publication owned by Clarim Holdings, is a financial publisher and does not recommend or endorse investment, legal or tax advisors, investment strategies or particular investments. Those seeking specific investment advice should consider a qualified and licensed investment professional. Worth® is a registered trademark of Worth.