Was My IRA Designed to Transfer Wealth?

Headline news has brought a lot of attention to the new changes that were made under the Secure Act. The Secure Act was designed with the hope to make it easier for people to fund their retirement. Some changes to the Secure Act, under the new law, have been viewed as beneficial. Positive changes brought about by the Secure Act include: RMD age increasing to 72 and the option for investors to continue contributions beyond age 70.5 to a Traditional IRA as long as there is earned income, just to name a couple. With several positive changes the Secure Act brought forth, there are also some areas that need to be examined as potential issues down the road. From a financial advisor's perspective, the Secure Act has shed light on an issue that existed in the past but is now even more prominent.

Prior to the Secure Act if you were to inherit an IRA as a non-spouse you had the ability to "stretch" required minimum distributions (RMDs) from the inherited account over your lifetime. This allowed for the funds to continue to grow tax deferred and for investors to potentially pay less in taxes on those earnings. The Secure Act has eliminated the use of a "Stretch IRA" and under the new laws the inherited money must be distributed within 10 years. The downside to having to withdraw the money by the end of the tenth year is that younger beneficiaries are potentially still working and earning income. Withdrawing the funds during peak earning years could result in much higher tax bills.

This change to the Secure Act really illustrates the fact that IRAs were not designed to transfer wealth, but rather to help individuals save for their own retirement. Now that non-spouse beneficiaries are being forced to empty their inherited accounts before the end of the tenth year, investors are starting to look closely at different estate planning techniques. Exploring other techniques and options could potentially enhance what is left behind and also help reduce the tax liability that heirs may face. Fortunately, with proper guidance and planning individuals can act now to help ensure that their estate will pass in the way that they feel best suits their desires.

With every change comes pros and cons. As an investor, it is important to take a step back and look at how these changes will affect an overall financial plan. Creating a financial plan is not a set it and forget it process. It is something that needs to be evaluated and adjusted as time passes. Events can happen in life that cause us to rethink what we imagined would be ideal for us in the past. The changes to how an IRA are now inherited are a prime example of how continuing to review your financial situation and plan is essential to preparing for a more comfortable and financially healthy retirement.

Source:*https://www.kiplinger.com/slideshow/retirement/T047-S001-how-the-secure-act-will-impact-retirement-savings/index.html* references to accounting, tax services or legal providers. They may also work with your attorney or independent tax or legal advisor.