The rules have changed regarding your IRAs, RMDs and estate plan

Published on April 24, 2020

Many people's estates typically include individual retirement accounts ("IRAs"). Two major laws that were recently enacted, the Setting Every Community Up for Retirement Enhancement ("SECURE") Act and the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, have had a direct effect on IRAs.

In a nutshell, the CARES Act waives required minimum distribution ("RMD") rules for IRAs (and certain defined contribution plans) for calendar year 2020. If you're fortunate enough that you don't need to make withdraws from your IRA, there's an opportunity to leave more for your heirs in your retirement plan. However, because the SECURE Act generally put an end to "stretch" IRAs, the estate planning benefits of inheriting IRAs are somewhat muted.

RMD rules waived

Not taking RMDs in 2020 is particularly advantageous because the amount of the distribution is based on year-end 2019 account values. Otherwise, you might be forced to liquidate account assets at depressed values during the stock market downturn.

The waiver covers both 2019 RMDs required to be taken by April 1, 2020, and RMDs required for 2020. It applies for calendar years beginning after December 31, 2019.

"Stretch" IRAs eliminated

Perhaps more important for some estate plans, the SECURE Act eliminates so-called "stretch" RMD provisions that have allowed the beneficiaries of inherited IRAs and defined contribution accounts to spread the distributions over their life expectancies. Younger beneficiaries could use the provision to take smaller distributions and defer taxes while their accounts grew.

Under the SECURE Act, most nonspouse beneficiaries must withdraw the entire balance of an account within 10 years of the owner's death. This is an unfavorable change for beneficiaries who would like to keep inherited IRAs (generally traditional and Roth IRAs) open for as long as possible to continue reaping the tax advantages. However, they don't have to follow any set schedule. They can wait and withdraw the entire amount at the end of 10 years if they wish.

This change won't immediately affect accounts inherited by a so-called "eligible designated beneficiary." This term refers to:

• The surviving spouse of the deceased account owner;

• A minor child of the deceased account owner (but the 10-year rule kicks in once the child reaches the legal age of majority - which is typically age 18 under the law of most states);

• A beneficiary who's no more than 10 years younger than the deceased account owner; or

• A chronically ill individual as defined under the tax law.

Important: Under the exception for eligible designated beneficiaries, RMDs from the inherited account can generally be taken over the life or life expectancy of the eligible designated beneficiary, beginning with the year following the year of the account owner's death.

However, other nonspouse beneficiaries will get hit by the new 10-year account liquidation requirement.

The unfavorable changes to the RMD rules under the SECURE Act are generally effective for RMDs taken from accounts whose owners die after 2019. The RMD rules for accounts inherited from owners who died before 2020 are unchanged. Accordingly, if you inherited an IRA years ago, you won't be subject to the new rules with respect to your RMDs. However, when your beneficiaries inherit the IRA from you, they'll be subject to the new rules.

Review your plans

The changes made by the CARES Act and the SECURE Act may have an impact on your retirement and estate plans. We can help you review your plans to ensure that they continue to meet your objectives.

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