

# SECURE ACT AND STRETCH IRAS: WELCOME TO THE NEW, NEW NORMAL

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By now most professionals involved in managing a client's wealth, estate or taxes are aware that the Setting Every Community Up for Retirement Enhancement (SECURE) Act is now the law of the land. This landmark legislation became effective on January 1, 2020, and contains 29 provisions – most of them taxpayer friendly – that are designed to help the average American save for and during retirement.

What created the biggest stir are changes to inherited individual retirement accounts (often referred to as “stretch IRAs”). The new law requires non-spousal beneficiaries to withdraw the full amount held in an inherited IRA within 10 calendar years

after the IRA owner's death – which means higher distributions, which could result in beneficiaries paying significantly higher taxes.

Under the old rules, non-spousal beneficiaries could withdraw required minimum distributions (RMDs) over their life expectancy. For younger beneficiaries, it was an exceptionally appealing provision because it allowed the funds to grow for decades. It's important to remember that we have been down this road before. The new stretch IRA regulation is similar to a previous rule that required beneficiaries of an inherited IRA to have withdrawn the entire amount held in the account within five years – if the IRA owner had not yet begun RMDs before death.

For most people, IRAs and similar accounts are often the largest asset (other than a home) when they reach retirement. Retirees want to maximize distributions and minimize taxes, but they also want to pass along their wealth to future generations.

Unfortunately, research by Jay Zagorsky, an economist and research scientist at Ohio State University, found that most inherited funds are not saved – half of the money is either lost through bad investments or spent.

Here are six things about the new rules you need to consider when assessing an estate plan that involves IRAs:

1. Existing IRA trusts (pre-2020) using stretch IRA rules are not affected (but there can be issues upon the death of a beneficiary)
2. Conduit and accumulation trusts are still options (but their benefits are not as powerful as they were under the stretch option)
3. The stretch option remains in place for spouses (but there are exceptions and traps)
4. The stretch option is also available to beneficiaries with disabilities (but with specific parameters)
5. There is a quasi-stretch for beneficiaries who are minors
6. Distributions do not have to be in equal amounts during the 10-year window; all funds can be withdrawn in any year, as long as the full amount in the IRA is distributed by the 10th year

We recommend that financial advisors, tax specialists meet with their clients soon to review estate planning and retirement goals in light of the SECURE Act. As always, such a review should also consider certain the impact of recent or upcoming life events – such as marriage, divorce, the birth of a grandchild or the sale of a business. Meeting sooner rather than later allows an examination of estate plans and beneficiary designations to make sure client wishes will be carried out as originally intended.



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