

The Secure Act

➤ **The Secure Act took effect January 1, 2020**

- ✓ It changed the start date for Required Mandatory Distributions (RMDs) from Retirement Accounts to age 72 from 70½
- ✓ It also changed the rules when a Retirement Account is Inherited by other than a Spouse and a few other beneficiaries

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The Secure Act

➤ **The Secure Act 2.0 passed in December 2022, took effect January 1, 2023**

- ✓ It changed the start date for Required Mandatory Distributions (RMDs) from 72 to 73 starting in 2023, and to 75 starting in 2033
- ✓ It also increased the catch-up contribution by \$10,000 for those attaining the age of 60 to 63, with some income limits

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The Secure Act

- Prior to 2020, all beneficiaries of traditional IRAs and 401Ks were permitted to “stretch” their withdrawals, with an annual RMD. Now this option is limited to a Spouse and a few others
- Other beneficiaries, like children and grandchildren, are no longer required to take an annual RMD, but they must withdraw all the funds within 10 years after the Death of the Original Owner

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The Secure Act

- In addition to a spouse, these other beneficiaries that can still “stretch” Distributions from Inherited traditional IRAs & 401Ks
 - ✓ **Disabled & Critical Ill** Individuals
 - ✓ **Individuals, if less than 10 years younger** than the Original Account Owner
 - ✓ **Minor Children** until they turn 18, then they too have 10 years to withdraw the account assets

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The Secure Act

- The problem with the 10 year time limit to withdraw the funds, is that some, if not most, retirement account distributions are taxable. If the amount in an account is substantial, taxes can near 40%
- If the funds are not withdrawn within the 10 year time limit, there is a 50% penalty on the balance in the account and the tax on it too

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Types of Retirement Accounts

- **Traditional IRAs and 401Ks**
 - ✓ Most Contributions are Tax Deductible
 - ✓ Contributions and Earnings are taxed when withdrawn (Distributed)
 - ✓ There can be a Penalty if withdrawn before age 59½, with some exceptions
 - ✓ Changed Distribution rules when **Inherited** were previously discussed

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Types of Retirement Accounts

- **Roth IRAs**
 - ✓ Contributions are After Tax
 - ✓ Distributions and Earnings not Taxed if over 59½ and account is over 5 years old
 - ✓ 10% Penalty if withdrawn before age 59½ with some exceptions, but earnings are taxable
 - ✓ If the Contribution was a conversion from a traditional IRA, earnings are taxable on each conversion for 5 years
 - ✓ When Inherited and less than 5 years old, contributions can be withdrawn tax free, but withdrawn earnings are taxed

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Types of Retirement Accounts

- **More on Roth IRAs**
 - ✓ When Inherited, all Distributions are still **tax free** if the account is over 5 years old, but all funds must be withdrawn within 10 years, with exceptions for a spouse, minor child of original owner, or you are chronically ill or disabled
 - ✓ More exemptions on penalties and taxability when distribution is for 1st home purchase or inherited by some beneficiaries' and trusts

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Types of Retirement Accounts

➤ **Qualified Annuities**

- ✓ Most Contributions are Tax Deductible
- ✓ Distributions and Earnings are taxed when withdrawn

➤ **Nongualified Annuities**

- ✓ Contributions are After Tax
- ✓ Distributions of contributions not taxed, but earning can be taxed

Annuities can have unique rules with each Policy – Non spouse beneficiaries may have a 5 year time limit to withdraw funds

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The Secure Act – What to do Now

➤ **Review your Beneficiaries, if a Spouse, the rules are unchanged**

- ✓ If beneficiaries are affected by the time limits and they are or will be in a higher tax bracket than Original Account Owner, consider converting Traditional IRAs and 401ks accounts to a Roth IRA
- ✓ If you do convert to Roth, you will be taxed on the amount converted and it can trigger NIIT and/or potentially increase your Medicare costs two years later

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Roth Conversions

➤ **You can convert cash or securities in an existing Traditional IRAs**

➤ **No cost to convert except you will pay income tax on the amount you convert. See tax brackets and rates on following slides**

➤ **Also your Medicare monthly costs may increase based on your higher income. See Medicare rates on following slides**

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2023 Medicare Part B Rates

Social Security increased a substantial 9.8% for 2023, but unlike most prior years, the 2023 Medicare Part B rates are slightly lower than the 2022 rates

2023 Rates

If your yearly income in 2021 was			
File individual tax return	File joint tax return	File married & separate tax return	You pay (in 2023)
\$97,000 or less	\$194,000 or less	\$97,000 or less	\$164.90
above \$97,000 up to \$123,000	above \$194,000 up to \$246,000	not applicable	\$230.80

Rates Increase for Higher Incomes

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