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Planning Ahead



Lisa C. Alexander, Esq.
Jakle & Alexander, LLP

New Law Affecting Retirement Accounts

On January 1, 2020 the SECURE Act became the new law governing retirement accounts. The name of the Act stands for [S]etting [E]very [C]ommunity [U]p for [R]etirement [E]nhancement. The two most significant provisions of the Secure Act are the delayed beginning date for Required Minimum Distributions, also known as “RMD”s, and the shortened time for a beneficiary to withdraw an inherited account.

Under the old law, a person had to start taking their RMDs when they reached age 70-1/2. Now you don't have to start taking your RMDs until you reach age 72. Since RMDs are taxable as income, the delayed start date is good news.

Under the old law, the beneficiary of an inherited retirement account could stretch out withdrawals over the beneficiary's lifetime. Now, with limited exceptions, a non-spouse beneficiary has only 10 years to withdraw the entire account. For a minor child, the 10-year period doesn't start to run until the beneficiary reaches age 18, but then must be fully paid out by age 28. This is bad news for the beneficiary since the withdrawals are taxable as income. The shortened 10-year time period will mean larger withdrawals and more tax paid sooner.

For estate planning, the goal was almost always to delay distribution for the longest possible time (the beneficiary's lifetime) to minimize taxes. In most cases there was not much focus on the question of protecting the inheritance since, unless the beneficiary (usually unwisely) took distribution in a lump sum, the money would be distributed gradually and in small amounts. It was really all about taxes.

Now, we must focus the question whether we want the beneficiary to receive the entire account in 10 short years? Or do we want to plan our estates to delay distribution, even if we can't delay payment of the tax? Reasons to delay distribution include immaturity, creditor protection and possible divorce. And while you are thinking about that, now is a good time to review your beneficiary designations to be sure they are consistent with your overall estate plan and to confirm that the plan administrator has your beneficiary designation on file.

Lisa C. Alexander is an attorney at Jakle & Alexander, LLP. She can be reached by calling 310-656-4310 or by emailing her at alexander@jaklelaw.com.