Pilot Grove Savings Bank

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Q: What makes 2020 a unique year for retirement?
A: Big changes to retirement account rules.

You can attribute those changes to two major pieces of legislation: the Setting Every Community Up for Retirement Enhancement (SECURE) Act, and the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

You may not have to withdraw money from your retirement plan this year. In most circumstances, you must make annual withdrawals from traditional IRAs and workplace retirement plans once you turn 72. The CARES Act suspends this requirement for 2020.[1]

The same goes for inherited IRAs. IRA beneficiaries, of any age, are not required to draw down or empty these accounts in 2020.

Please note, though, that under the SECURE Act, most non-spouse beneficiaries of a Roth IRA are required to have the funds distributed to them by the end of the tenth calendar year, following the year of the original owner's death.[2,3]

Have you already taken your annual IRA or workplace retirement plan withdrawal? If you have, the Internal Revenue Service is allowing you until August 31 to put it back unless you took it in January – if you did take it January, no such luck. This also applies for inherited IRA withdrawals taken this year.[2]

As a reminder, money that is distributed to you from traditional IRAs and workplace retirement plans is taxed as ordinary income. When such distributions are taken before age 59½, they may be subject to a 10% federal income tax penalty; although, the CARES Act allows some exceptions to these penalties in 2020.[4]

You may keep contributing to your traditional IRA as long as you earn income. Before the SECURE Act passed, you had to stop contributing to a traditional IRA when you reached RMD age, i.e., age 70½. Contributions to traditional IRAs are now allowed past the current RMD age, as long as you meet the earned income requirement.[5]

Some pre-retirees might be eligible to take CRDs. Yes, CRDs: coronavirus-related distributions of up to $100,000 from qualified retirement plans and traditional IRAs. Under the CARES Act, retirement savers may make such withdrawals in 2020 without a tax penalty, but only under the following conditions. One, the plan has to permit such distributions. Two, you, your spouse, or one or more of your dependents must have been diagnosed with COVID-19. Three, you must personally have experienced negative financial consequences due to COVID-19. You may elect to spread the distribution over three years for tax purposes, and you also have the chance to put 100% of it back in the plan within three years, without having the withdrawn amount characterized as taxable income.[1]

The SECURE Act has impacted the timing of some charitable IRA gifts. At times, some retirees would rather have a tax break than the income and income taxes, resulting from a mandatory IRA withdrawal. As a result, some arrange qualified charitable distributions (QCDs) from traditional IRAs, which may fully or partly satisfy their annual RMD amount. A QCD can be as large as $100,000. (Original owners of Roth IRAs never need to make mandatory withdrawals.)[6]

Keep in mind that this article is for informational purposes only. It's not a replacement for real-life advice, so make sure to consult your tax legal and accounting professionals before modifying your strategy.

While the SECURE Act pushed back the age threshold for mandatory IRA withdrawals from 70½ to 72, it left the QCD age threshold at 70½. This gives owners of traditional IRAs a window of about a year to arrange a QCD, which could help manage an IRA balance. A smaller IRA balance implies smaller RMDs in the future.[6]

The "stretch" IRA strategy is basically over. As a provision of the SECURE Act, nearly all IRAs inherited after January 1, 2020, must be emptied of assets by the end of the tenth calendar year, following the year of the original owner's death. Previously, distributions from an inherited IRA could be "stretched" across the lifetime of the beneficiary. A surviving spouse of the IRA owner, disabled or chronically ill individuals, individuals who are not more than 10 years younger than the IRA owner, and children of the IRA owner who have not reached the age of majority may have other minimum distribution requirements.[3]

This material was prepared by MarketingPro, Inc.

Citations.

1. Finra.org, April 10, 2020
2. CNBC, June 29, 2020
3. Forbes.com, December 17, 2019
4. Forbes.com, June 23, 2020
5. Morningstar.com, February 13, 2020
6. Fidelity.com, July 2, 2020