



### Sunset of Stretch (SOS)

by William C. Larson

There is a quotation often attributed to Leon Trotsky, a Russian revolutionary and activist during the early part of the last century. At the time of his assassination by Soviet agents in Mexico in August 1940, he had witnessed the Russian Revolution, World War I and the beginning of World War II. Conflict and change had been his life.

*"You may not be interested in war, but war is interested in you." Leon Trotsky*

Like war, we may not be interested in substantial change and exposure to taxation of our retirement accounts, but there are powerful movements afoot to do just that. In fact, it is very likely that our elected representatives in Congress will complete the drafting of legislation this autumn changing how we plan for our downstream beneficiaries of our tax-deferred IRA investments.

As our readers already know, our office is an active participant with Ed Slott and Company and the Ed Slott Master Elite IRA Advisor Group. This is a team of IRA specialists whose goal it is to train and advise us on all things retirement finance related. This close relationship goes back many years. When it comes to retirement issues, no one is better connected on impending policy change than Mr. Slott and his colleagues. Recently Ed has spoken to us about the likelihood of change concerning our retirement accounts and we want to pass the latest along to you.

I mentioned in my last newsletter that the SECURE Act was passed overwhelmingly by the House 417-3 on May 23<sup>rd</sup>. Clever as always in their titling, the House version is actually **Setting Every Community Up for Retirement Enhancement Act of 2019**. The Senate has yet to vote on their own version.

While many House and Senate members are on summer break from the D.C. heat and humidity, it is time to fill in the blanks for what looks likely to occur when they return. Not surprisingly, our elected representatives remain very interested in you, your beneficiaries and specifically the untaxed wealth tucked into your retirement investments once you pass away. They are of course interested in taxing that money sooner than later and in limiting the time your beneficiaries have to extend payments before income tax must be paid.

For years, we have had available to us inherited IRA structures allowing beneficiaries to "stretch" their payments of money over their life expectancies. The result has sometimes been decades' long benefit payments for younger beneficiaries of IRA owners who have done astute planning. Tax minimization and control over when and how a beneficiary might access the fruit of the earner's life's work were primary benefits of these strategies.

Those were the rules of the game as set up by Congress long ago. As a result, many taxpayers carefully saved and invested under those rules for decades in order to provide not only for their retirement, but for their loved ones in future years.

No more if Congress gets its way.

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They and many courts in our land have long believed that your IRA, your retirement plan, your tax-deferred money are just that: yours for *your* retirement. When it comes to your non-spouse beneficiaries, they believe these are not by definition any longer retirement dollars after your death and that Uncle Sam ought to have a tax crack at the money sooner than later.

The result is a likely policy change eliminating the concept of required minimum distributions (RMDs) after your death for downstream beneficiaries (the stretch), replaced by a term certain by which the money must come out. Presently, the draft legislation is saying this period would be ten years, with a few exceptions. Take it in year one, evenly over the ten years or all at the tenth year, but you will have to get it all out by the deadline.

So what are the takeaways from all of this and what does it mean for you?

Candidly, many beneficiaries have their plans made up for the spending of these funds rather soon after the transfer anyway so they would already be taxed fairly early on. Further, ROTH IRAs by definition have already been taxed but would also be subject to the new distribution rules. So for many smaller accounts, the impact will be de minimis for families and for the IRS.

Mainly this affects those that have the need to control the pace and conditions of the cash transfer to beneficiaries over longer periods. Those savers with larger retirement accounts who have thought this caution necessary and have executed expensive and elaborate IRA trust documents are particularly affected. That is a regrettable outcome of this legislation if passed. In many families, the life's work of the earner might be squandered or seized by an adult child's creditors or perhaps in a divorce. In others dealing with family members gambling or abusing drugs or just too immature to handle much money, this proposed law could be dangerous and harmful where it is not today using IRA trusts.

In addition to the "stretch" possibly going away, the trade-off currently in the House bill is to remove the government-inflicted confusion of the 70½ rule. Many of us would welcome a more straightforward rule for the required beginning date (RBD) to begin our mandatory distributions from retirement accounts. Currently the thinking is to change the RBD to a more sensible number of age 72.

The financial planning ramifications of this proposed legislation are beginning to unfold. For some clients, we will be reaching out individually to go over the specifics of how this may impact them.

Seldom in my memory has financial and estate planning bedrock faced a tectonic shift of this magnitude. We will continue to provide insight and value to you, your family and planning as this issue unfolds.

Please call our office with any questions on this.

*Ed Slott is not affiliated with, nor endorsed by, LPL Financial.*

*"Stretch IRA" is a marketing term implying the ability of a beneficiary of a Decedent's IRA to withdraw the least amount of money at the latest allowable time in order to maintain the inherited IRA assets for the longest time period possible. Beneficiary distribution options depend on a number of factors such as the type and age of the beneficiary, the relationship of the beneficiary to the decedent and the age of the decedent at death and may result in the inability to "stretch" a decedent's IRA. Illustration values will greatly depend on the assumptions used which may not be predictable such as future tax laws, IRS rules, inflation and constant rates of return. Costs including custodial fees may be incurred on a specified frequency while the account remains open.*

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