Simplifying the Retirement Planning Landscape in 2020

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Speaker

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Overview

1. 2020 Trends
2. What is income planning?
3. Longevity Risk
4. 2020 Income Strategies
5. Conclusion

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Major 2020 Trends

Markets are Reacting To Information

- **10th Bear Market for S&P Since 1950**
- Markets react quickly to information
- Trillions of dollars of relief from CARES and other sources
- This has caused volatility both up and down (single biggest market movement days both UP and DOWN in past decade were in March 2020)
- 74 daily market swings of at least 1 percent YTD (August 1, 2020)
- But S&P 500 is relatively flat YTD

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Looking Ahead – 2020 Macro Issues

- Tax Revenue
- Continued Volatility and Unemployment Risk
- Low Interest Rate Environment – how are you chasing yield?
- Funding Status of Social Security
- Early Retirement Risk

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Legislation and Impact

- CARES Act
- SECURE Act
- Next Stimulus Bill (HEALS Act)

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Clients are Concerned

- Increased Volatility
- Economy at a standstill
- Serious Health Concerns
- Longevity
- Running out money

It's Simple: Lead With Planning

A Retirement Income Process

What is Retirement Income Planning?

“Hitting a moving target in the wind”

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What is Retirement Income Planning?

Goal-Based Planning

Meet your financial goals

- Income needs
- Contingent expenses
- Legacy goals

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Address retirement risks

- Longevity
- Inflation
- Healthcare
- Long-term care
- Sequence of withdrawal risk
- Public policy risk

= Secure Retirement Income Plan

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Determine Approach to Generating Retirement Income

Safety First
(flooring)
approach

Systemic
Withdrawal
from a single
portfolio

Bucket or
Multiple
Portfolio
Approach

Flooring Strategy

Discretionary	**Portfolio** **Reserves**
Essential	**Pensions** **Social Security** **Income Annuities**

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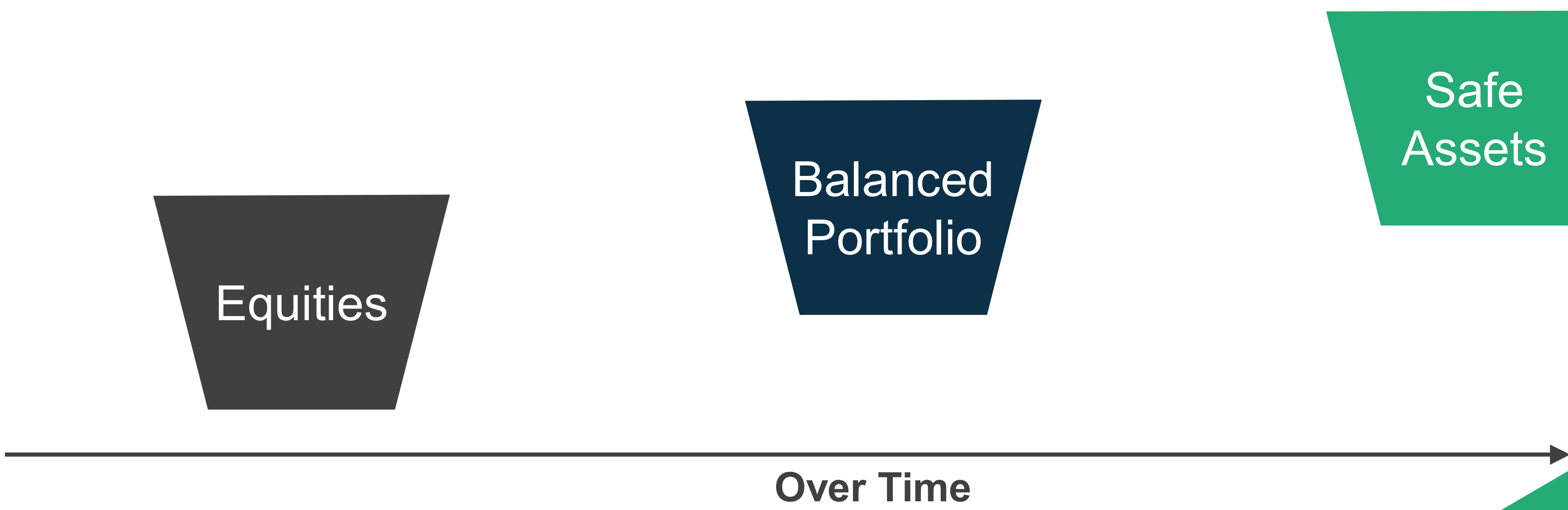
JH1

Bucket Approach



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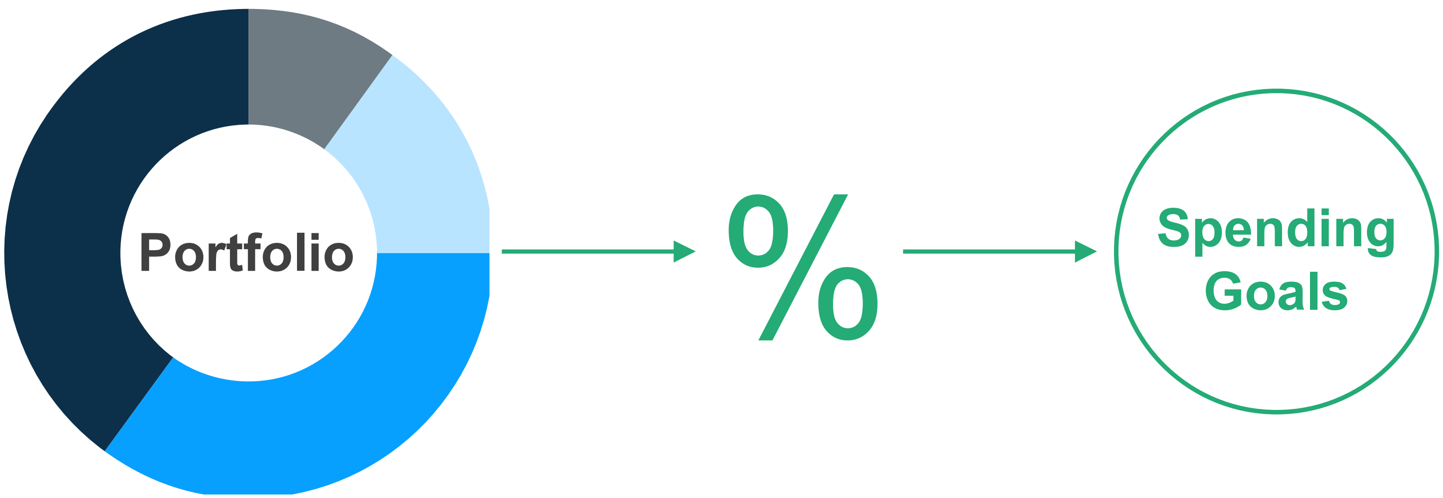
Slide 15

JH1 Read notes
Jamie Hopkins, 2/25/2019

Systematic Withdrawal



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Why The Target Moves: Longevity

Why Does the Target Move (Longevity)?

Longevity Risk

- How long do you expect to live?
  - Uncertain
  - Social Security says roughly 84 for males and 86 for female
- Remember averages are just a starting point
  - 1 in 3 will live past age 90
  - 1 in 7 will live past 95

Source: www.ssa.gov/planners/lifeexpectancy.html

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If you are a live at 90, what is your life expectancy according to SS?

Male: 4.05 years
Female: 4.78 years

https://www.ssa.gov/oact/STATS/table4c6.html

The Recent Wind: SECURE & CARES Act

SECURE Act – Major Provisions

- 29 separate provisions
- Appropriations bill has some additional tax implications
- **3 main goals** of SECURE
  1. Encourage small employers (MEPs, tax credits, simplified safe harbor provisions)
  2. Increased lifetime income options (portability of annuities, simplification for qualification of annuities in plans, exemptions for annuities from RMD changes, calculation of lifetime income)
  3. Major RMD changes (10-year stretch, age 72, IRA after 70.5)

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RMD and IRA Changes

1. RMD age to 72
2. Save in Plans After 70.5
3. Stretch IRA Changes (10-Year Rule)

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CARES Act 2020

- Coronavirus relief effort
- Mostly funding for businesses, health care, tax breaks, and health care
- Some retirement level relief
  - RMD suspensions for 2020
  - Coronavirus Related Distribution Exception
  - Expanded 401(k) loan options

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10-Year Planning Strategies and Issues

Planning Issues with 10-Year Rule

- Increased taxes
- Pass-Through Trust Issues
- Annuity Issues for IRAs
- Successor Beneficiary Confusion

Distribution Periods

Beneficiary:

Designated Beneficiary (10-Year Rule is now starting point)

- Non-Spouse Beneficiary (children, grandchildren, friends, etc.)
- Most Trusts With Non-Spouse Beneficiary
- Successor beneficiary of pre-2020 inherited account

Eligible Designated Beneficiary Exception (Distributions over life of beneficiary)

- Minor Children* of Decedent/Owner
- Disabled Persons (federal definition)
- Chronically Ill (needs assistance with at least 2 activities of daily living)
- Not More Than 10 Years Younger Owner/Decedent
- Spouse of Decedent/Owner at time of death
- Certain Trusts

Non-Designated Beneficiary (5-Year Rule)

- Charities
- Estate (No beneficiary or estate listed as beneficiary)
- Certain Trusts

*Only applicable until the minor reaches the age of majority, then must distribute within ten years (State ages vary and exception can be extended further if minor is also a student into their 20s)

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Stretch vs. 10-Year Example

- 75-year-old parent passes away
- Leaves IRA to 45-year-old child – 38.8 years for life factor
- IRA worth $1,000,0000
- RMD year 1 – $100,000 after SECURE vs. $25,773 under Stretch

Huge Trust Issue

- Conduit trust
- “Beneficiaries will only have access to the RMDs of the IRA each year”
- SECURE Act language – no RMD due until year 10
- Access issue – money locked up for 10 years
- Tax issue – all money distributed in one year

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Successor Beneficiary Issue

- Successor beneficiary starts 10-year rule in most cases
- Unless a surviving spouse at certain ages
- So if Joe, 55, had a stretch and dies in 2020, goes to kid at 25, now under 10-year rule

The “Stretch” IRA Mimic Strategies and RMD Strategies in 2020

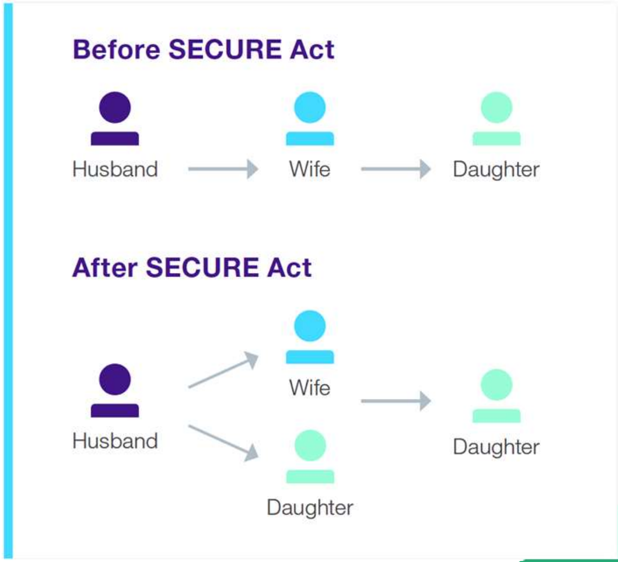
Planning Strategies To Consider

- Spousal rollovers
- Annuity contracts
- Roth planning
- Multi-Gen spray trusts
- IRAs to CRTs
- Life insurance max strategies
- Charitable beneficiary
- Roll Back of RMDs 2020

New Spousal Rollover Strategy

New best practice:

- Leave portion to surviving spouse and portion to children
- This allows children to take RMDs now for first IRA and allows surviving spouse to take their own RMDs
- Death of second parent also allows another 10-year RMD timeframe
- If surviving spouse lives five years, children have 15 years to take RMDs



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Why Roth Works in 2020

- 10-year period can cause higher distributions for heirs
- Higher distributions means higher tax rates for heirs
- Compare owners tax rates to potential heir tax rates
- Could be better to pay today, rather than leave to heirs at higher tax rate
- Concern about rising tax rates
- Tax diversification

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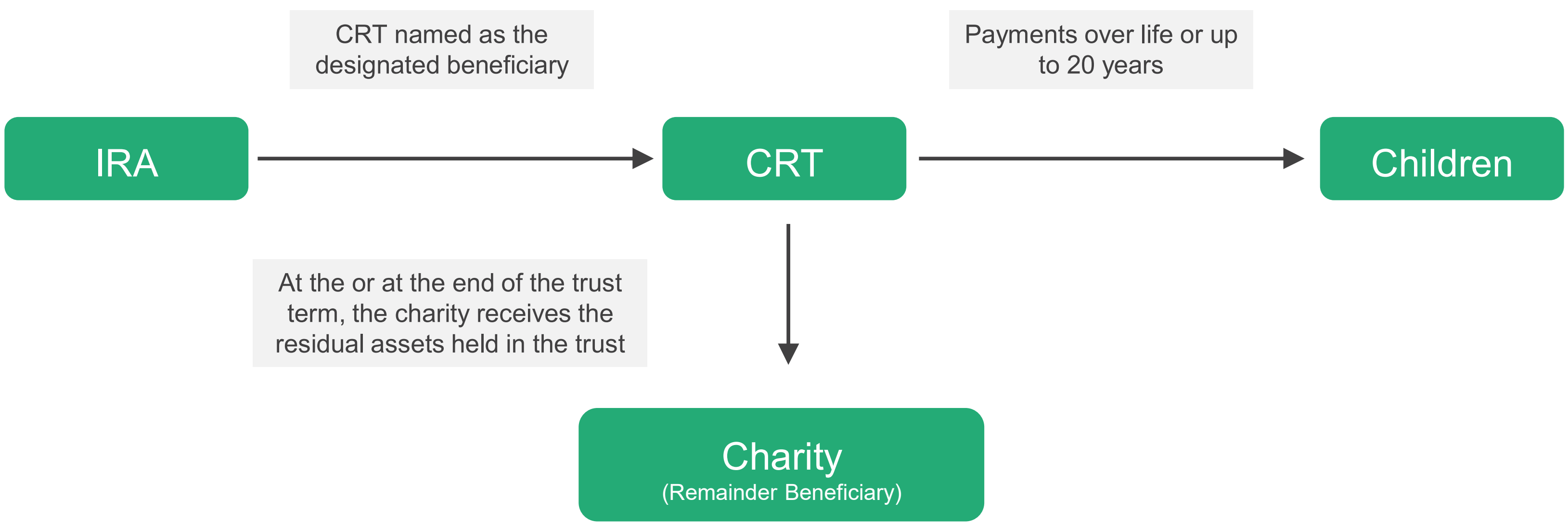
Using Charitable Remainder Trusts

- **NIMCRUT**: fixed payment, but if trust earns less, than only pays what trust earns (5% minimum for fixed)
- **CRUT**: variable payment to beneficiary and remainder to charity
- **CRAT**: essentially a fixed payment to beneficiary and remainder to charity
- Can fund with IRA at death of individual
- Only would be taxed when assets leave CRT – can be lifetime
- Still need to be charitably inclined
- General idea: Gift to trust, charity is remainder beneficiary. Life income beneficiary gets payments for term or life, deduction in amount of remainder interest to charity (must be at least 10% value of current trust)

CRTs Visual



IRC §§ 401(a)(9), 664.

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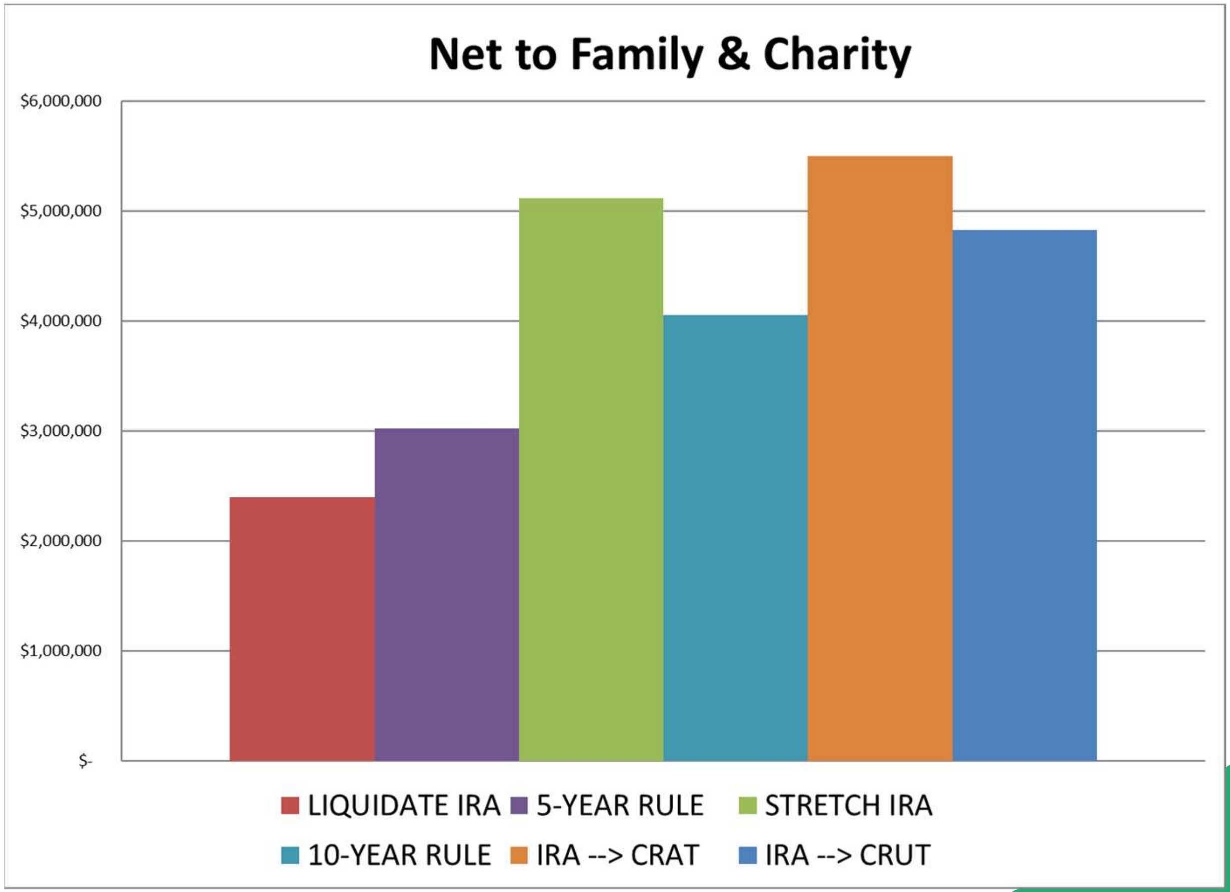
CRAT Example

Basic Assumptions*

- $1,000,000 in a Traditional IRA at death
- 50-year old beneficiary
- Pre-tax growth rate of 6%
- Tax rate assumptions
  - 37% income tax rate applies if the IRA is liquidated
  - 32% income tax rate applies if the IRA is distributed over 5-years
  - 24% income tax rate applies if the IRA is distributed over 10-years
  - 22% income tax rate applies if the IRA is distributed over the life-time of the beneficiary or passed to the beneficiary via a CRT

*CRAT Examples by Keebler

CRAT To Family and Charity*



*Provided by Keebler Tax & Wealth Education

2020 RMD Waiver CARES Act

Skip RMDs for 2020

1. RMDs essentially suspended for 2020
2. Applies to most plans
3. No need to make up in future year

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June 23rd Update

- IRS Notice 2020-51, https://www.irs.gov/pub/irs-drop/n-20-51.pdf
- allowed for RMDs in 2020 to be rolled over by August 31, 2020
- Does not count against the 1 rollover per 12-month period for IRA to IRA
- Essentially treated as a 60-day rollover
- Can do an IRA directly to a Roth as conversion as part of this rule

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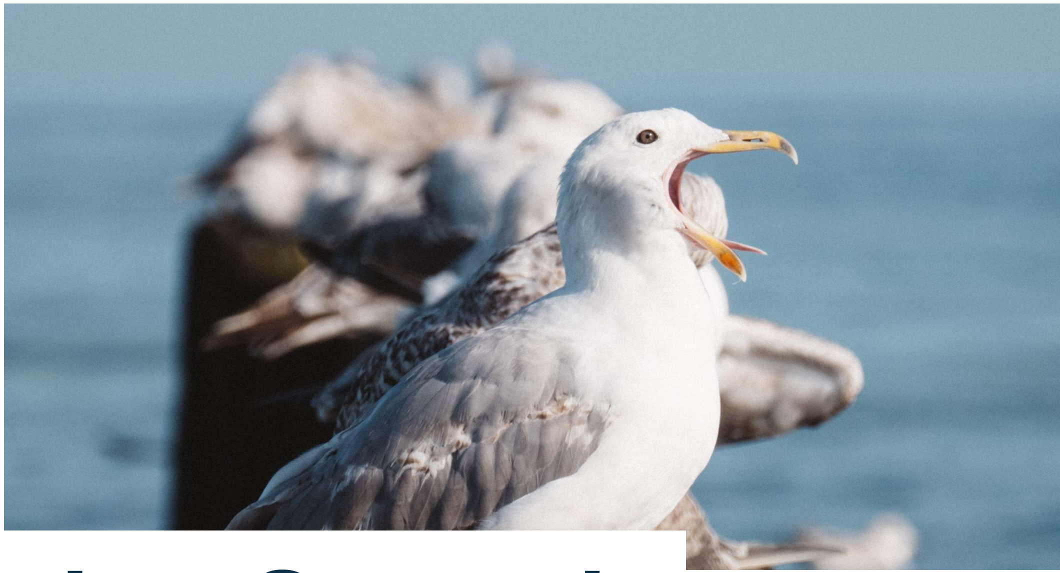
QCD Issues and Charitable Giving In 2020

Giving in 2020

- 2020 has been challenging for many
- Charitable contributions are still down
- A sense to help others in 2020
- Tax Planning
- Generational Family Wealth Planning



Charitable Giving Spreads

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Inefficient v. Efficient Giving

- For those that are charitably inclined
- Have the means to give
- And are ready
- It might be a case of giving efficiently v. inefficiently

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Bunching Strategies

- Bunching charitable contributions with a Donor Advised Fund (DAF)
- Benefit: Spread out distributions and get tax deduction this year
- Higher standard deduction could mean you can't itemize under TCJA
- So, bunch multiple years into one year to get above standard deduction
- This can also work in high tax years
- But you can carry forward for 5 years an unused charitable deduction but only if it exceeds the AGI limits – not if you are standard filer.

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No-Bunching Strategy Example

John and Mary Doe are married and have a modest home mortgage.

- Their marginal federal income tax rate is 35%.
- Make a charitable gift of $10,000 in 2020, 2021, and 2022 federal income tax returns, respectively, because the aggregate amount of their itemized deductions for those years of $24,800 ($4,800 mortgage interest deduction, $10,000 charitable gifts, and $10,000 of SALT deductions) does not exceed the standard deduction $24,800.
- No value from charitable giving from tax perspective.

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Bunching Strategy Example

John and Mary Doe are married and have a modest home mortgage.

- Their marginal federal income tax rate is 35%.
- Make $30,000 in 2020 to DAF and don't give in 2021, 2022 the aggregate amount of their itemized deductions for this years of $44,800 ($4,800 mortgage interest deduction, $10,000 charitable gifts, and $10,000 of SALT deductions) does not exceed the standard deduction $24,800.
- Money still goes to charity in 2020, 2021, 2022
- <u>Tax savings is $7,000</u> – immediate tax savings = 35% rate on $20,000
- Why $20,000 – standard deduction was 24,800 and new deduction was $44,800
- <u>Total cost is now $23,000 for gifts</u> ($30,000 in gifts minus $7,000 in new tax break)

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For Some Now Is Best Time To Give

- High income, impacted by SALT, top federal cap gains still same
- For those looking to reduce taxable income, charitable giving is likely still the best and most flexible tax deduction for HNW clients
- Not everyone is seeing lower taxes under TCJA, anyone seeing higher taxes might want to consider giving
- Giving of appreciated stocks (with markets higher or with gains)
- Those still itemizing – can still be valuable
- Retirees – QCDs still valuable

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Qualified Charitable Distributions

- SECURE Act moved to 72 but QCDs remain at 70.5
- Remember offset provision for 70.5 IRA deductible contributions
- Can still use 70.5 QCD in 2020
- But no RMDs offset since none owed in 2020
- Still helpful from a tax perspective
- Do you consider doing QCD in 2021 for both years?

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New 2020 Charitable Deductions

- $300 per filing that didn't itemize above the line cash deduction
  - Standard deduction filers can take advantage
- 100% of AGI allowed in deductible cash gives in 2020
  - Could be benefit of large gift strategy
  - Consider mixing with other strategies – Roth
  - Not always best to do 100% deduction

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Looking Forward

Continued Wind and Legal Changes

- Pressure on tax revenue and federal budget
- Early retirement risks in 2020
- SECURE Act Trust Failures and Beneficiary Review
- Social Security Issues
- Roth planning is huge
- Keep preparing for changes in income planning (The WIND)
- Managing Emotions

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