DING DONG, THE STRETCH IRA IS DEAD! HOW LIFE INSURANCE CAN COME TO THE RESCUE

By Bill Monte, The Estate, Legacy and Long-Term Care Planning Center of Western NY

Well, it finally happened. After being passed in the House of Representatives by a 417-3 vote back in May, The Setting Every Community Up for Retirement Enhancement (SECURE) Act was attached to a broad appropriations bill at the end of 2019 and became new law.

This new legislation will have wide reaching effects on retirement and estate planning for most people, with the biggest change coming from the ending of the current Stretch IRA rules. Traditional IRA and other qualified retirement plan accounts are simply big bags of taxable income. We all know that when we remove money during our lifetime from these types of accounts that we pay current income taxes on that withdrawal. That will always be the case, but now the government is really coming after those who ultimately inherit those accounts from us!

Prior to this law change, a non-spouse beneficiary who inherits an IRA or other defined contribution plan could stretch out Required Minimum Distributions (RMD's) from the plan over their own life expectancy. However, starting on Jan. 1, 2020, if an owner of an IRA, 401(k) or 403(b) account passes away and leaves the account to a beneficiary other than their spouse, the beneficiary will only have 10 years after the year of death of the owner to distribute and pay taxes on the entire retirement account. That is a substantial change. As I mentioned in a previous article, this is where IRA Maximization Planning utilizing life insurance comes into play and when properly structured and implemented, can create a dramatically better situation for the non-spouse beneficiaries, allowing them to fully escape the increased level of Federal and State income taxes that they will be faced with because of this new law.

Joint or "2nd to Die" life insurance for married couples or individual life insurance (for non-married) will undoubtedly become the primary "go-to" tax-efficient planning strategy to offset these income taxes and allow for the replacement of the retirement plan wealth that will be lost.
Using life insurance for this purpose accomplishes so many positive things, the 4 main benefits being:

• The amount of money that you put into the life insurance legacy plan over your lifetime is substantially less than the much larger life insurance amount that your chosen non-spouse beneficiaries will receive 100% tax-free at your eventual passing. The immediate tax-free magnification that life insurance creates is quite dramatic.

• At your passing, it allows your Estate to recover and be paid back all of the income taxes that you paid on the withdrawals that you took from your Traditional IRA over your lifetime (both pre and post RMD).

• At your passing, it also allows your Estate to recover and be paid back all of the income taxes that you paid on your Social Security income over your lifetime.

• Lastly, it gives the ultimate beneficiaries of your Estate, the tax-free capital to help them negate the substantial income taxes that will be due (at THEIR Federal and State income tax brackets) allowing your retirement accounts to pass to them completely intact, avoiding tax erosion of your estate.

For those who have the available resources, either from discretionary income (i.e. non-needed RMD income) or dormant investment assets held outside of the Traditional IRA to use to fund the life insurance Legacy plan with, then this is a planning strategy that really should be fully explored.

The main caveat to be considered is that the funding of the plan, whether it be with one single lump sum only or with deposits made annually (either over your lifetime or a finite period of time), cannot have a negative effect on the individual or married couple's desired retirement standard of living that they are currently enjoying. If it does, then this planning strategy is not appropriate and should not be implemented.

If you would like to learn more about how the change to the Stretch IRA rules will affect the non-spouse beneficiaries of your IRA or other retirement plan accounts, please feel free to contact me at 585-721-2385. Also, look for my monthly informational workshop that I give at the Brighton Recreation Center in this magazine's Event Calendar.

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