# Advanced Sales Forum

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*August 8-10, 2022*

# Post-SECURE IRA Planning: Rewritten, Reworked and Rewarding

**Steve Parrish**

***The American College***

*Of Financial Services*

*August 9, 2022*

2020

# *The challenge of tax wonks versus investment geeks*

**Steve Parrish, JD, RICP®, ChFC®, CLU®, RHU®, AEP®**
*Co-Director, Retirement Income Center*
*The American College of Financial Services*

# *Section 7702 Was Changed. Now What?*

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2021

**Recorded July 9, 2021**

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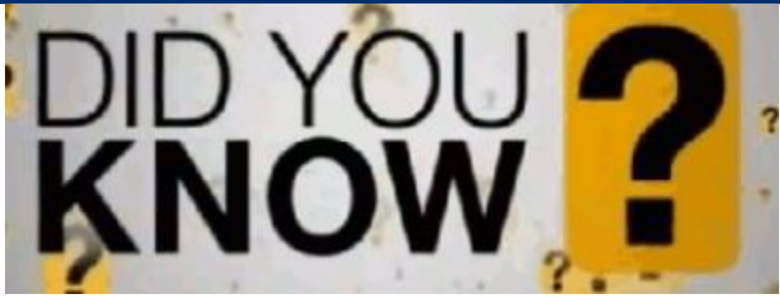
# Today’s Approach

*I have got a rule … As an intelligence officer, your responsibility is to tell me what you know. Tell me what you don’t know. Then you’re allowed to tell me what you think. But you always keep those three separated.*

Colin Powell

# What We **Know**

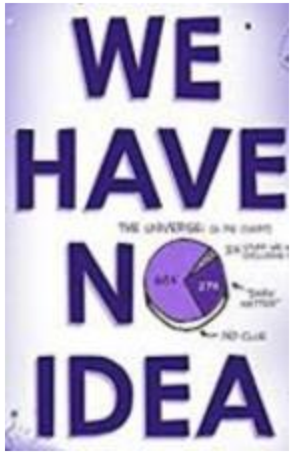



- The SECURE Act largely removed the stretch IRA Concept
- RMD requirements during life are now less burdensome
- Under the TCJA, income taxes will increase, largely in 2026
- Social Security and Medicare have grave funding issues

- There are proposed SECURE ACT regulations for inherited IRAs that would change planning
  - They are quite possible, and clearly will affect planning
  - They could have retroactive affects
- SECURE Act 2.0 may possibly be enacted yet this year
  - It would affect the *funding* side (more 401(k) funds = more IRAs)
  - It would affect the *planning* side (RMD date, QLACs, etc.)
- A reconciliation bill may pass, increasing taxes

# What We **Don't Know**

- Whether SECURE Act 2.0 and Proposed SECURE Act Regs will happen
- Whether we will have higher taxes passed *before* 2026
- What changes there will be in IRA financial advisor regulations … and their affect on the marketplace (SEC, DOL, NAIC, individual states)
- Economic affects on IRA planning
  - ✓ Inflation
  - ✓ Investment markets
- Can software accurately model/simulate/solve IRA planning needs (Social Security, IRMAA, income tax, E&G tax, legacy and longevity)
- Others factors: Auto-IRAs, anti-401(k) sentiment, ESG, crypto



In the press, but who really knows what's going to happen?

Kiplinger

Home // Retirement // Inheritance

INHERITANCE

# If You Inherited an IRA Recently, You Could Be in for a Mess

The IRS recently proposed a major change in the way inherited IRAs work for those subject to the SECURE Act's 10-year rule. Inheritors need to be ready.

by: Steve Parrish, J.D., RICP® - April 21, 2022

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RETIREMENT

# The New Rule You Need To Know About If You're Leaving An IRA To Your Heirs

STEVE PARRISH, JD, RICP

THE WALL STREET JOURNAL.

# IRS Changes Guidelines for Inherited IRAs, Causing Confusion and Pushback

Some people choose to take a big tax hit now rather than deal with 10 years of calculations

# Robo IRA Advisor?

**INPUTS**

The possibility of a decrease in Social Security benefits
The income tax on Social Security
IRMAA
Estate tax, including the drop in the exemption level in 2026
The §691(c) deduction affect on income and estate taxes with inherited IRAs
Modified adjusted gross income currently, last year AND two years ago (for IRMAA)
Income tax brackets starting in 2026 due to TCJA sunsetting
Effect of higher survivor tax bracket due to death of spouse
State and local income and estate taxes
Tax bracket of the inheritors
How soon lifetime RMDs apply
RMD considerations for inherited IRAs (10-year rule, etc.)
Retirement from employment strategy: hard stop at what age or a phased retirement
Longevity and mortality expectations to use for each spouse
Any special morbidity (medical, LTC, disability) factors
Investment plan – expected risk/return strategy …

**STRATEGIES**

Roth conversions
Social Security deferral to age 70
Use a QLAC for longevity risk
Use Qualified Charitable Deduction
Bunch income to limit IRMAA and maximize conversions
Appeal the IRMAA premium income test
*Non-tax assets* like life insurance cash values and a reverse mortgage for Social Security bridge
*Taxable assets* for Social Security bridge (e.g. def. comp)
Tap IRAs up to the top of the marginal tax bracket
TIPs and Strips of TIPs
Bond ladders
SPIAs and GMWB deferred annuities
Systematic withdrawals (“4% rule”)
Bucket (time sequence) approach
Floor strategy
Optimal withdrawal strategy
Life insurance cash values as income …

# What We **Think** … *big picture*

- Traditional IRAs are no longer a significant estate planning tool – consider alternatives
- IRA strategies involving <u>lifetime withdrawals</u> and <u>conversions</u> are compelling
- <u>Roth</u> IRAs are highly effective (different demographics; different advantages)
- <u>Lifetime RMDs</u> will be a lesser issue and should not drive IRA planning
- <u>Social Security delay</u> strategies remain important in IRA planning *even if* benefits decline in the future because of underfunding
- Social Security's <u>tax torpedo</u> and Medicare's <u>IRMAA</u> penalty significantly affect IRA planning for middle-class and affluent consumers respectively
- There's a need & interest to use IRA balances for creating <u>*lifetime* retirement income</u>
  - ✓ Annuities
  - ✓ Life insurance

- *IRA planning will <u>increase</u> as an advisor discipline* (vs. as a DIY consumer task)

# Today’s topics

- ✓ **IRAs are not a great estate planning tool** ~~IRA~~
- ✓ **Roth IRAs rock, *but* ….**
- ✓ **Accumulate with IRAs, but start <u>decumulation</u> <u>planning</u> with Social Security and Medicare**
- ✓ **Why DIY is DOA**

# 1. SECURE Act (& tables) : great for the owner

before

after

| AGE | BOY Balance* | RMD factor | RMD | EOY Balance* |
|---|---|---|---|---|
| 70 | 2000000 | 27.4 | 72993 | 1,927,007 |
| 71 | 1927007 | 26.5 | 72717 | 1,854,290 |
| 72 | 1854290 | 25.6 | 72433 | 1,781,857 |
| 73 | 1781857 | 24.7 | 72140 | 1,709,717 |
| 74 | 1709717 | 23.8 | 71837 | 1,637,880 |
| 75 | 1637880 | 22.9 | 71523 | 1,566,357 |
| 76 | 1566357 | 22 | 71198 | 1,495,159 |
| 77 | 1495159 | 21.2 | 70526 | 1,424,632 |
| 78 | 1424632 | 20.3 | 70179 | 1,354,454 |
| 79 | 1354454 | 19.5 | 69459 | **1,284,994** |
| | **With Changes** | | | |
| 70 in 2020 | 2000000 **SECURE Act &** | | 0 | 2,000,000 |
| 71 in 2021 | 2000000 **Revised Tables** | | 0 | 2,000,000 |
| 72 in 2022 | 2000000 | **27.4** | 72993 | 1,927,007 |
| 73 in 2023 | 1927007 | **26.5** | 72717 | 1,854,290 |
| 74 in 2024 | 1854290 | **25.5** | 72717 | 1,781,573 |
| 75 in 2025 | 1781573 | **24.6** | 72422 | 1,709,151 |
| 76 in 2026 | 1709151 | **23.7** | 72116 | 1,637,035 |
| 77 in 2027 | 1637035 | **22.9** | 71486 | 1,565,549 |
| 78 in 2028 | 1565549 | **22** | 71161 | 1,494,387 |
| 79 in 2021 | 1494387 | **21.1** | 70824 | **1,423,563** |

Age 70
$2 million
IRA

11%
increased
balance

NOTE: assumes 0% account growth

# not so great for the beneficiary

**Tax**

1. Income tax next gen*:

   $192,867.90 (stretch)

   $227,795.64 (10-year RMD)

   $445,758.29 (lump sum 10 yrs)

2. Estate tax: $569,425**
3. No basis step-up

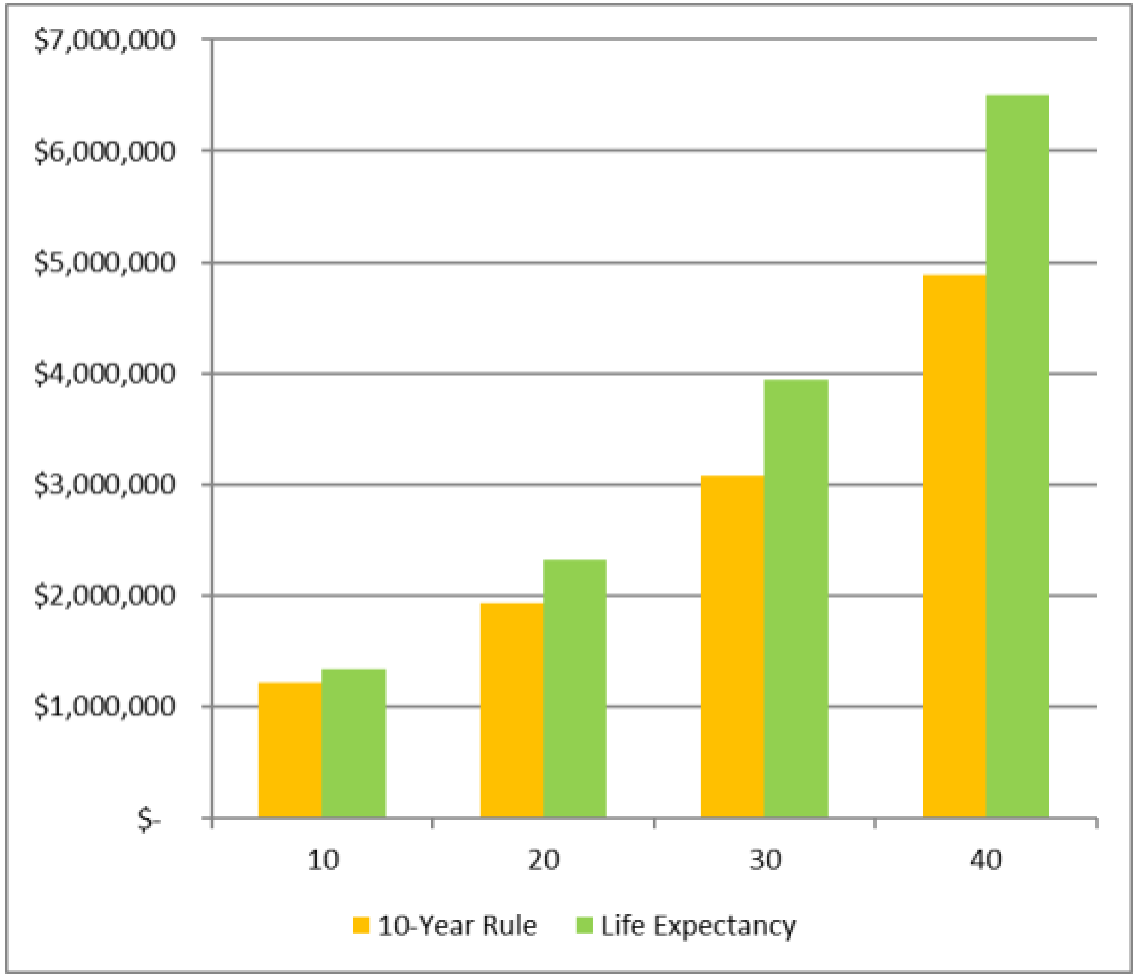
**Other Considerations**

1. IRMAA, NII, QBI, torpedo, etc.
2. Complexity and administration
3. Trust planning
   - Accumulation or conduit trusts
   - Separate subtrusts and expenses

*NPVs using 4% ROI and 22% tax bracket; 60-year-old beneficiary **less §691(c) deduction

# RMDs after Death

*Example* : Age 40 beneficiary



# Solution A: Use Trusts?

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- Trust v. No Trust
  - My default is no trust
  - Exception – if you have a really, really good reason to use a trust
    - E.g.,
      - Don't trust the beneficiary
      - Beneficiary may have asset protection issues
      - Beneficiary is in higher income tax bracket than trust

And, if you must use a trust … (next slide)

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- *Suggestions for Using Trusts*
  - If you must use a trust, first consider using a regular dynastic trust, which does NOT qualify as a RDB (i.e., it is a Non-DB and the 5-Year Rule (pre-RBD) / Ghost Rule (post-RBD) applies, and the assets stay in the trust, with really no limitations on who could be a beneficiary).
  - If you must use a trust and asset protection is critical, then, use an Accumulation Trust (i.e., the ALAR 10-Year Rule, and the assets stay in the trust, with limitations on who could be a beneficiary).
  - If you must use a trust, but asset protection is not critical, then use a Conduit Trust (i.e., the ALAR 10-Year Rule, and the assets go outright).

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**From *Lester B. Law, Esq.*, 2022**

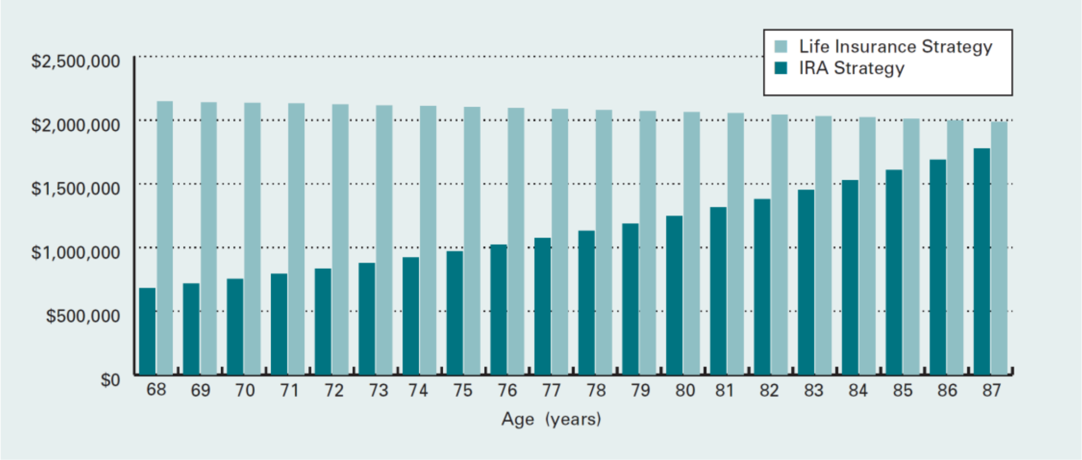
# Solution B: Use Life Insurance?

- ✓ Tax-free instead of tax-deferred bequest
- ✓ Premium spreads out the IRA tax

Techniques

- Single life
- Last-to-die on couple
- Direct to beneficiary or in trust

**FIGURE 1**
Hypothetical Comparison of Net Benefit to Heirs, Life Insurance Strategy vs. Traditional IRA Strategy




## The Use of Insurance Products in Required Minimum Distributions Planning

by Steve Parrish, JD, CLU, ChFC

JOURNAL OF FINANCIAL SERVICE PROFESSIONALS | JULY 2015

# 2. Roth IRAs Rock: Happy 25th anniversary!


IRA

Roth


***IRA***: Government's *investment* in your retirement

- Defers tax on contribution
- Collects tax as withdrawn
- Taxes are a % of the accumulated account
- Built-in safeguards
  - <59½ - 10% penalty
  - Lifetime RMDs @ 72
  - RMDs on inherited IRAs = 10-year rule

***Roth***: Government's *subsidy* towards your retirement

- Pay tax on contribution
- Waives future taxes
- Safeguards
  - Income limits (Roth IRA)
  - Contribution limits (Roth Account)
  - 5 years and triggering event to be qualified

# “Bonus” features of Roth

- ✓ No lifetime RMDs
- ✓ Can invest more by paying tax out of separate funds
- ✓ No limits on conversions
- ✓ Return of contributions are tax-free, even if disqualified withdrawal
- ✓ Can transfer from Roth Account to Roth IRA and avoid aggregation rules
- ✓ Can be used for Social Security bridging without increasing MAGI

*“Tax on the seed; not on the harvest”; “An 83(b) election for the consumer”*

*What’s the risk?*

- *Investment loss (no recharacterization)*
- *Lower taxes in the future*
- *Tax law change*

# IRA or Roth?

**$1,000 contributed 20 years ago; 3% real return; 22% tax bracket: Solve for *A.T. RMD***

| age | same<br>IRA&Roth@22% | down<br>IRA@12% | up<br>IRA@28% |
|---|---|---|---|
| 72 | 51 | 58 | 48 |
| 73 | 53 | 60 | 49 |
| 74 | 55 | 62 | 50 |
| 75 | 56 | 63 | 52 |
| 76 | 58 | 65 | 53 |
| 77 | 59 | 66 | 54 |
| 78 | 60 | 68 | 55 |
| 79 | 62 | 70 | 57 |
| 80 | 63 | 71 | 58 |
| 81 | 65 | 73 | 60 |
| 82 | 66 | 75 | 61 |
| 83 | 68 | 77 | 63 |
| 84 | 69 | 78 | 64 |
| 85 | 71 | 80 | 66 |

**same / IRA+ / Roth+**

***But, with Roth*:**

- No RMD
- You can time your conversions and withdrawals
- Better flexibility at death, factoring in
  - 10-year rule vs. stretch rule
  - Beneficiary tax bracket
  - Spendthrift concerns

# IRA Planning Challenges and Solutions by Demographic

- **Middle income** – Social Security Tax Torpedo
  - *SOLUTION*: IRA drawdown first
- **Affluent** – IRMAA premium
  - *SOLUTION:* Roth conversions before 63
- **HNW** – Estate tax on wealth
  - *SOLUTION*: drawdown IRAs first (like a grantor trust)

# 3. Decumulation planning starts with Social Security and Medicare

**Social Security**
- Best longevity insurance available
- Should (almost) always delay filing
- Even if benefit reduction
- Tax torpedo is deadly

**Medicare**
- Is expensive
- Requires annual review
- IRMAA is infuriating/costly
- Affects Social Security payment


**BOTH:**
- **Top-of-mind to seniors**
- **Involves lifetime commitments**
- **Very sensitive to planning**

# IRA Planning Implications of Medicare and Social Security

- Roth – the earlier the better for conversion
- Drawdown traditional IRAs before filing for Social Security
- Use IRAs for retirement and life insurance for legacy goals
- PRODUCTS: *make actuaries your friends* (risk pooling & mortality premium)
- ADVISORS: *put up or shut up* (get educated & don't rely on software)

**Roth Conversion in detail**

- *Not just an income tax play*
- *It's both a transfer tax and beneficiary income tax issue*
- *IRMAA, RMDs, and Social Security torpedo must be factored in*
- *2022 may be an excellent year:*
    - *Lower brackets*
    - *Depressed markets*
    - *BBB mega-Roth rules*
- *Coordinate with IRA drawdowns*

# An Example*

As Lynne ($100K income, single) nears retirement her financial advisor suggests converting her $400,000 traditional IRA to a Roth IRA. 3 options:

1. *Rip off the Band-Aid*: convert in 1 year
2. *50/50 conversion*: covert over 2 years
3. *Dole Out the Savings*: convert in four parts

**The rest of the story**:

1. Age 62, and will retire/file at 65
2. Option 3 concerns:

- Only moves from 35% tax bracket to 32%
- 85% of her Social Security will be taxable for a year
- IRMAA monthly premium jumps from $170.10 to $544.30

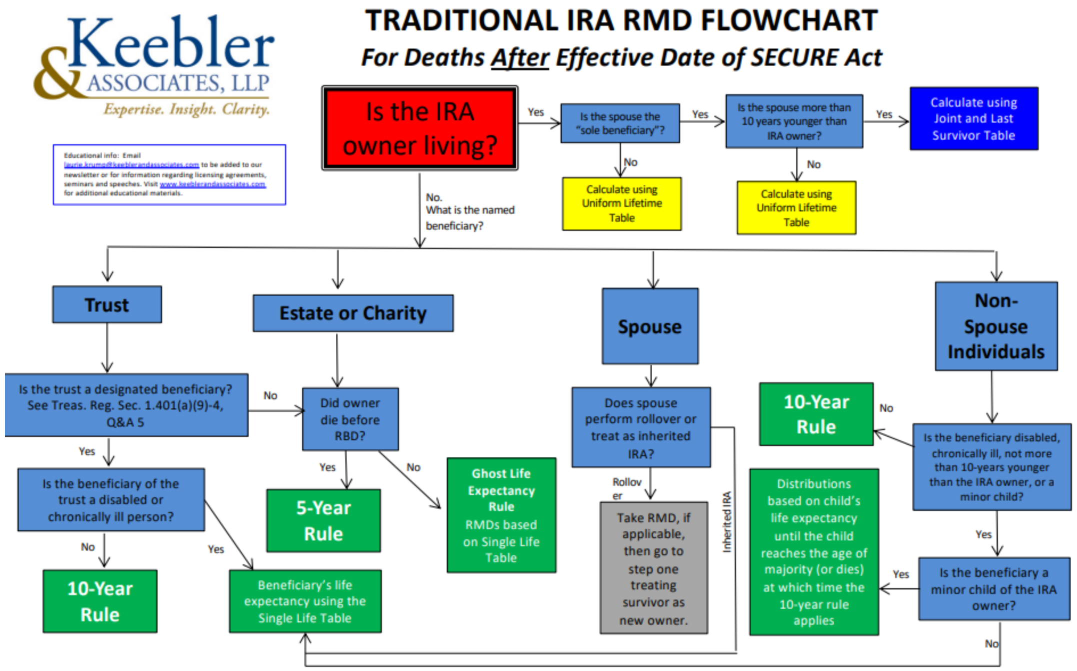
(for 2 years, but could appeal)

3. The Point: *connect all the dots*

* Example from Marcia Mantell: Avoiding Nasty Surprises in Roth IRA Conversions: A Case Study | ThinkAdvisor

# 4. Advisor or DIY?

1. **Complexity**




2. **Income tax**
- Estimated taxes
- State and local
- Custodial involvement

3. **Estate and gift tax**
- Versus step-up assets
- Handling "fading" IRC §691(c) deduction
- GST allocation is the same IRA or Roth, but more net in Roth
- RMD handling year of death and after

4. **Robo and V.R.?**
- Variables involved
- Severity of some decisions
- Behavioral finance aspects
- Fiduciary responsibility

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# Post-SECURE IRA Planning: Rewritten, Reworked and Rewarding

## What to Do

*Monitor SECURE 2.0 and SECURE regs*

*Educate advisors and staff*

*Provide ideas more than illustrations*

**It's worth it!**

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Thank you for attending the

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