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EPIC CAPITAL

A Good Life Well Lived. INSIGHTS

The SECURE Act

Long-established retirement account rules change.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act is now low. With it, comes some of the biggest changes to retirement savings law in recent years. While the new rules don't appear to amount to a massive upheaval, the SECURE Act will require a change in strategy for many Americans. For others, it may reveal new opportunities.

Limits on Stretch IRAs. The legislation "modifies" the required minimum distribution rules in regard to defined contribution plans and Individual Retirement Account (IRA) balances upon the death of the account owner. Under the new rules, distributions to non-spouse beneficiaries are generally required to be distributed by the end of the 10th calendar year following the year of the account owner's death.[1]

It's important to highlight that the new rule does not require the non-spouse beneficiary to take withdrawals during the 10-year period. But all the money must be withdrawn by the end of the 10th calendar year following the inheritance.

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 child of the IRA owner who has not reached the age of majority may have other minimum distribution requirements.

Let's say that a person has a hypothetical $1 million IRA. Under the new law, your non-spouse beneficiary may want to consider taking at least $100,000 a year for 10 years regardless of their age. For example, say you are leaving your IRA to a 50-year-old child. They must take all the money from the IRA by the time they reach age 61. Prior to the rule change, a 50-year-old child could "stretch" the money over their expected lifetime, or roughly 30 more years.

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IRA Contributions and Distributions. Another major change is the removal of the age limit for traditional IRA contributions. Before the SECURE Act, you were required to stop making contributions at age 70½. Now, you can continue to make contributions as long as you meet the earned-income requirement.[2]
Also, as part of the Act, you are mandated to begin taking required minimum distributions (RMDs) from a traditional IRA at age 72, an increase from the prior 70½. Allowing money to remain in a tax-deferred account for an additional 18 months (before needing to take an RMD) may alter some previous projections of your retirement income.[2]

The SECURE Act's rule change for RMDs only affects Americans turning 70½ in 2020. For these taxpayers, RMDs will become mandatory at age 72. If you meet this criterion, your first RMD won't be necessary until April 1 of the year after you reach 72.[2]

Multiple Employer Retirement Plans for Small Business. In terms of wide-ranging potential, the SECURE Act may offer its biggest change in the realm of multi-employer retirement plans. Previously, multiple employer plans were only open to employers within the same field or sharing some other "common characteristics." Now, small businesses have the opportunity to buy into larger plans alongside other small businesses, without the prior limitations. This opens small businesses to a much wider field of options.[1]

Another big change for small business employer plans comes for part-time employees. Before the SECURE Act, these retirement plans were not offered to employees who worked fewer than 1,000 hours in a year. Now, the door is open for employees who have either worked 1,000 hours in the space of one full year or to those who have worked at least 500 hours per year for three consecutive years.[2]

While the SECURE Act represents some of the most significant changes we have seen to the laws governing financial saving for retirement, it's important to remember that these changes have been anticipated for a while now. If you have questions or concerns, reach out to your trusted financial professional.

New I.R.S. Contribution Limits

Changes for 2020.

The I.R.S. just increased the annual contribution limits on IRAs, 401(k)s, and other widely used retirement plan accounts for 2020. Here's a quick look at the changes.

*Next year, you can put up to $6,000 in any type of IRA. The limit is $7,000 if you will be 50 or older at any time in 2020.[1,2]

*Annual contribution limits for 401(k)s, 403(b)s, the federal Thrift Savings Plan, and most 457 plans also get a $500 boost for 2020. The new annual limit on contributions is $19,500. If you are 50 or older at any time in 2020, your yearly contribution limit for one of these accounts is $26,000.[1,2]

*Are you self-employed, or do you own a small business? You may have a solo 401(k) or a SEP IRA, which allows you to make both an employer *and* employee contribution. The ceiling on total solo 401(k) and SEP IRA contributions rises $1,000 in 2020, reaching $57,000.[3]

*If you have a SIMPLE retirement account, next year's contribution limit is $13,500, up $500 from the 2019 level. If you are 50 or older in 2020, your annual SIMPLE plan contribution cap is $16,500.[3]

*Yearly contribution limits have also been set a bit higher for Health Savings Accounts (which may be used to save for retirement medical expenses). The 2020 limits: $3,550 for individuals with single medical coverage and $7,100 for those covered under qualifying family plans. If you are 55 or older next year, those respective limits are $1,000 higher.[4]

Facts About Medicare Open Enrollment

How much do you know about the different coverage options?

Medicare's open enrollment period runs through December 7. If you are enrolling in Medicare for the first time, you will discover that it is much more complex than an employer-sponsored group health plan.[1]

When you are enrolled in Medicare, you pay multiple premiums for multiple types of coverage (Parts A and B as well as the Part D prescription drug plan), and unlike a group health plan, there are no caps on out-of-pocket costs and a risk that you might have to pay a hospital insurance deductible more than once per year. Original Medicare also does not cover some costs that many seniors would like to cover, such as dental and vision care expenses.[2,3]

This is why so many retirees decide to buy Medigap policies or enroll in comprehensive Medicare Advantage (Part C) plans – they recognize the shortcomings of original Medicare. The downside of Part C plans is that you are restricted to the doctors in their networks. Original Medicare allows you to choose any doctor that accepts Medicare (though it is smart to have a Medigap policy as well).[1,3]

You can freely switch from one Medicare Advantage plan to another in the open enrollment period; you can also enroll in one without having to go through underwriting. If you want to move from a Part C plan back into original Medicare, you may not be able to supplement Parts A and B with a Medigap plan right away because underwriting will be required.[3,4]

Whether you are enrolling in Medicare for the first time or considering a change in coverage, it is vital to understand these matters. If you have questions, visit Medicare.gov or ssa.gov/medicare for more information.

Charitable Lead Trusts

How they work, how they may help you reduce taxes.

Are you concerned about the inheritance taxes your heirs may have to pay? Then you may want to consider creating a charitable lead trust.

A charitable lead trust is the inverse of a charitable remainder trust. While a CRT is structured to provide income to the trust beneficiaries and an eventual charitable donation, a CLT provides a charitable gift at its implementation plus the possibility of eventual income to your heirs.[1]

A CLT may provide an estate tax solution for a highly appreciated asset. As a hypothetical example, a multi-millionaire named Scott owns $1 million of greatly appreciated blue-chip stock. He wants to reduce the value of his taxable estate; he does not want to burden his heirs with death taxes. He would also like to make a major gift to a local charity. So Scott collaborates with an estate planning attorney to draw up and implement a CLT.

By gifting the highly appreciated stock to the charity using a CLT with a term of 20 years, Scott creates an income stream for the charity with significant tax benefits as a byproduct. Income payments to the charity will be made in 20 yearly installments of $50,000 from the trust principal. After either 20 years or Scott's death, his heirs will receive the interest off of the initial CLT principal (i.e., the appreciation on those shares across 20 years) while the actual shares will go to the charity.[1]

In donating the stock through the CLT, Scott is eligible to take an upfront income tax deduction for the full value of the charitable donation. He receives a gift and estate tax break equivalent to what would happen if he simply wrote a $1 million check to the charity, while also offering a potential financial benefit to his heirs.[2]

All CLTs are irrevocable, and there are different varieties of them. Here is a brief breakdown of their variations, and their characteristics.[2]

CLTs can be created either before one's death or at one's death. In an *inter vivos* CLT, the grantor (i.e., donor) relinquishes ownership of the asset(s) to the trust while alive. Asset(s) transfer into a *testamentary* CLT only upon the death of the grantor. An executor to a testamentary CLT can fund that CLT with assets equaling any inheritance taxes owed.[1,2]

Some CLTs are structured to allow further asset contributions during the trust term. Other CLTs are designed so that no further contributions to the trust are permitted once the trust is active.[1,2]

Most CLTs are non-grantor trusts. These CLTs are expressly designed to benefit a charity and the donor's heirs. In a non-grantor CLT (such as the above example), the donor gives away the asset(s) to charity; heirs receive only the interest on the principal at the end of the trust term. You can see the potential downside: if the asset depreciates over the trust term, the heirs receive nothing. In a non-grantor CLT, the donor is able to take an annual income tax deduction on the value of the income that heads to the charity discounted at the federal funds rate.[3,4]

Other CLTs are grantor trusts. These CLTs are primarily designed to benefit a charity and the donor. The charity receives income off the trust principal for X years, but the donor will regain ownership of the appreciated asset(s) when the trust term expires. The donor gets to claim an upfront income tax deduction for the gift. In this variation, the donor pays taxes on the income the CLT generates, so it is wise to put tax-exempt investments into a grantor CLT.[3,4]

An IRS formula figures the future value of the donor's gift. The variables here include the annual income the charity will receive, the duration of the CLT and the projected ROI for the trust asset(s). The IRS determines the ROI using an interest rate (the "hurdle" rate) based on Treasury yields. Non-charitable beneficiaries of the CLT are projected to receive the value of the trust assets at the end of the trust term minus the value of the initial gift. This amount will be exposed to estate taxes, but in many cases it will be far less than the generous estate tax exemption.[2]

CLTs allow you to pursue three estate planning objectives. If you want to make a sizable charitable gift, help your heirs and reduce taxes, you may want to explore creating one.

If you would like to further discuss any of the topics written about in this newsletter, or inquire about any of our other services, please feel free to contact us

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Questions, comments, and inquiries are welcome: info@EpicCapital.com

Visit us on the web at www.EpicCapital.com

EPIC CAPITAL
WEALTH MANAGEMENT
6135 Park South Drive – Suite 130
Charlotte, NC 28210