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EPIC CAPITAL

A Good Life Well Lived™ INSIGHTS

New Inherited IRA Rules

Do you know what has changed for I.R.A. beneficiaries?

New inherited I.R.A. rules took effect on January 1, 2020. The Setting Every Community Up for Retirement Enhancement (SECURE) Act became law on that day, altering the regulations on inherited Individual Retirement Account (I.R.A.) distributions.

The big change: the introduction of the 10-year rule for beneficiaries. Most people who inherit an I.R.A. now have to empty that I.R.A. of assets within ten years of the original owner's death. You can do this as you wish; you can withdraw the whole I.R.A. balance at once, or take incremental distributions on the way to meeting the 10-year deadline.[1]

Remember that tax rules constantly change. There is no guarantee that the tax treatment of Roth and Traditional I.R.A.s will remain what it is now. This article is for informational purposes only. If you have inherited or expect to inherit a traditional or Roth I.R.A., be sure to consult a financial professional for real-world advice.

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Are there exceptions to this rule? Yes. If the deceased I.R.A. owner was your spouse, you can treat the inherited I.R.A. like an I.R.A. of your own. If it is a traditional I.R.A., you generally must take required minimum distributions (R.M.D.s) from it once you reach age 72. The I.R.S. taxes those distributions as regular income, and if you take any distributions before age 59½, they may be subject to a 10% federal income tax penalty. If it is a Roth I.R.A., you aren't required to take R.M.D.s. (You may continue to contribute to a Traditional I.R.A. past age 72 as long as you meet the earned-income requirement.)[1]

Certain non-spousal I.R.A. beneficiaries still have the chance to "stretch" inherited I.R.A. distributions over their remaining lifetimes, using Internal Revenue Service formulas (a choice available to most I.R.A. beneficiaries before 2020). You may choose this option if you are less than ten years younger than the original I.R.A. owner.

You can also elect to do this if you meet the SECURE Act's definition of a "disabled" or "chronically ill" individual (you have a life-altering physical or mental impairment or require extended care).[1,2]

Lastly, if a child inherits an I.R.A., they can take distributions based on the child's life expectancy until the age of 18, at which point the aforementioned 10-year rule applies.[1]

If you are a Roth I.R.A. beneficiary, be aware of the 5-year rule pertaining to Roth I.R.A.s. If you inherit a Roth I.R.A. that is less than five years old at the time of the original owner's death, any earnings taken from it will count as taxable income. If the Roth I.R.A. is more than five years old, you can take tax-free distributions from the earnings. Assets representing the original owner's Roth I.R.A. contributions can become tax-free distributions regardless of when the original owner opened the Roth I.R.A.[1]

What's the big takeaway from all this? Suppose you are relatively young and anticipate a large I.R.A. inheritance, and that big I.R.A. is a traditional I.R.A. In that case, you can anticipate greater income taxes during the 10-year window when you take those inherited I.R.A. distributions.

By the way, the new rules do not apply to inherited I.R.A.s whose initial owners died prior to 2020. If you are a beneficiary of such an I.R.A., then you may still attempt to "stretch" the inherited I.R.A. assets according to I.R.S. life expectancy formulas and take R.M.D.s as required by the old rules.[3]

IRA Deadlines Are Approaching

Here is what you need to know.

Financially, many of us associate April with taxes – but we should also associate April with important IRA deadlines.

April 15, 2021 is the deadline to take your Required Minimum Distribution (RMD) from certain individual retirement accounts.

Keep in mind that withdrawals from traditional, SIMPLE, and SEP-IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty.

To qualify for the tax-free and penalty-free withdrawal of earnings from a Roth IRA, your Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain other circumstances, such as the owner’s death. The original Roth IRA owner is not required to take minimum annual withdrawals.

April 15, 2021 is the deadline for making annual contributions to a traditional IRA, Roth IRA, and certain other retirement accounts.[1]

Some people may not realize when they can make their IRA contribution. You can make a yearly IRA contribution between January 1 of the current year and April 15 of the next year. Accordingly, you can make your IRA contribution for 2020 any time from January 1, 2020 to April 15, 2021.[2]

Thanks to the SECURE Act, both traditional and Roth IRA owners have the chance to contribute to their IRAs past age 72 as long as they have taxable compensation (and in the case of Roth IRAs, MAGI below a certain level; see below).[2]

If you are making a 2020 IRA contribution in early 2021, you must tell the investment company hosting the IRA account for which year you are contributing. If you fail to indicate the tax year that the contribution applies to, the custodian firm may make a default assumption that the contribution is for the current year (and note exactly that to the I.R.S.).

So, write “2021 IRA contribution” or “2020 IRA contribution,” as applicable, in the memo area of your check, plainly and simply. Be sure to write your account number on the check. If you make your contribution electronically, double-check that these details are communicated.

Life Insurance with Long-Term Riders

Separating some eldercare facts from eldercare myths.

The COVID-19 pandemic has changed extended-care policies. While the specific policy information varies from company to company, in general, the pandemic has made it more difficult to qualify for extended-care policies. This can be particularly challenging if you’re in a high-risk group.

Around 7 out of every 10 seniors are projected to need extended care during their lifetime, and many of these medical needs aren’t covered by Medicare, Medicaid, or standard health insurance. Unless you have made arrangements for extended care, you are choosing to self insure should you require this type of assistance.[1]

With the added restrictions that make it more difficult to qualify for a stand-alone policy, hybrid policies that combine life insurance and extended-care policies have gained traction. Some people are choosing to go this route over traditional extended-care policies. In 2019, over 250,000 hybrid policies were sold, compared to just 55,000 in stand-alone extended-care policies.[2,3]

Several factors will affect the cost and availability of life insurance and extended-care insurance, including age, health, and the type and amount of insurance purchased.

Life insurance policies have expenses, including mortality and other charges. If a life insurance policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications.

You should consider determining whether you are insurable before implementing a strategy involving life insurance or extended-care insurance. Any guarantees associated with the policies are dependent on the ability of the issuing insurance company to continue making claim payments.

"You should consider determining whether you are insurable before implementing a life insurance strategy.

What is a hybrid policy? Hybrid extended-care policies combine life insurance with extended-care coverage. As with a standard extended-care policy, the earlier you start paying premiums for one of these hybrid insurance products, the more manageable the premiums may be. You may need to pass medical underwriting to qualify for coverage. The encouraging news here is that some people who are not healthy enough to qualify for a stand-alone extended-care policy may qualify for a hybrid policy. Under one of these hybrid policies, if you never spend down the extended-care benefits the policy may be structured to transition to a life insurance policy with a death benefit payout. Some traditional extended-care policies operate on a "use it or lose it" basis, so if you never touch it, you may not see any money back.[2,3]

Many extended-care hybrid policies are funded in one lump sum, which may influence a buyer's decision. Some extended-care policies sold in the 1990s and early 2000s have seen double-digit premium increases, putting pressure on the owners to manage payments. However, current analysis shows that this was the result of an error of assuming only 30% of people with extended-care policies would use them.[2,3]

Are these hybrid policies just mediocre compromises? They have detractors as well as fans, and the detractors cite the fact that a standalone extended-care policy generally can be structured to provide more attractive benefits than a hybrid policy. They also cite their two sets of fees, per their two forms of insurance coverage.[2,3]

As always, if you have any questions about how extended-care factors into your estate strategy, I'm always available to discuss it with you.

The American Rescue Plan Makes FSAs a Little More Flexible

The act boosts the amount companies can allow workers to deposit.

For those with a Dependent Care Flexible Spending Account (FSA), there may be some good news on the horizon. The American Rescue Plan Act, signed into law by President Joe Biden, boosts the amount that companies can allow workers to deposit in their dependent-care FSAs for 2021.

Here are some details to remember:

***Dependent Care Contributions:** The limit on contributions to Dependent Care FSAs is now higher under the American Rescue Plan Act. For married couples filing jointly, the cap is $10,500, up from $5,000. For single filers, the limit is $5,250, up from $2,500.[1]

***Health FSA Contributions:** Health FSA contributions are unaffected by the latest stimulus bill, meaning contributions to Health FSAs are still capped at $2,750.[2]

***FSA Rollovers:** Employees may carry over all or some of their unused health and/or dependent care FSA funds from a plan year ending in 2020 or 2021.[3]

Although this may be deeply appreciated news for many, there is one caveat to keep in mind. Employers can choose whether to make any modifications to their plans under these temporary rule changes but are under no obligation to do so.[4]

Let me know if you'd like to chat about the most recent stimulus, FSAs, or any other topics you're pondering. I'm always here to help.

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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