Trust Connection

Building Lasting Relationships for the Benefit of our Mutual Clients

TRUST NEWS AND INFORMATION
FROM YOUR TRUST REPRESENTATIVE OFFICE

Welcome to ***Trust Connection***, a regular communication from Valley National Trust Services.

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Aligning Tax Deferred Retirement Accounts with Estate Planning

Over the past 30 years, the traditional pension plans that were historically important to the American workforce post-WWII, have largely gone away and have been replaced by some type of individual retirement account. Today, a substantial portion of the wealth possessed by Americans consists of tax-deferred retirement accounts such as traditional IRAs, 401(k)s and 403(b)s, profit sharing plans, stock bonus plans, and Employee Stock Ownership Plans (ESOPs). The burden of responsibility to understand how to plan and prepare for retirement rests on the shoulders of each American and this can be difficult to navigate through a complex subject that changes frequently. With that in mind, it's extremely important to review and document changes that have occurred in one's life alongside tax law changes annually to ensure they work in concert together. Let's review some of the primary components of coordinating retirement accounts with your client's estate planning efforts.

Unique Planning Opportunities

Often, retirement accounts are a significant portion of one's net worth. It is easy to see why – we spend our working years socking away money for our future. And, because these retirement nest eggs tend to be the largest assets in a person's estate, it is critical that planning is done to consider your client's retirement fund alongside their retirement needs. Unfortunately, health care expenses have emerged as one of the biggest needs in retirement today. The fast-rising cost of health care can quickly deplete even the largest of retirement funds.

The first thing you need to do is ensure your clients have the assets they need to take care of themselves and their family. It is imperative than an individual have what they need after they

retire and can manage their medical expenses on a fixed income. Managing finances in retirement can be incredibly stressful, especially when the unexpected happens. As the trusted advisor, you can help your clients stay on track with their financial goals and prepare them for the unexpected. This can be the calming difference that they need.

Next, develop a strategy for distributing any leftover funds upon your client's death in the most tax advantageous manner.

Generally, the receipt of inherited property is not subject to income tax. However, retirement accounts are the major exception to this rule, as these accounts represent income that has not been previously taxed. After a taxpayer's death, income tax will be due on the amount withdrawn from the taxpayer's retirement account. When dealing with retirement accounts, the primary goal is to allow the taxpayer's beneficiaries the opportunity to defer this income tax for as long as possible.

Financial Advisors and Estate Planning Advisors should consider the following questions related to clients' retirement accounts:

- Who will be the primary and contingent beneficiaries?
- Is there is a compelling reason to name a trust as a beneficiary?
- What are all of the possible taxes (federal/ state income tax, federal and state estate tax, federal and state generation skipping transfer tax (GST)) that may come into play given each client's unique situation?
- How long can the beneficiary defer or stretch withdrawals from the account and the associated income tax responsibility?
- Do any retirement account proceeds passing to a spouse, in trust, qualify for the marital deduction?

SECURE Act

The SECURE Act, a new law passed in late December 2019 that took effect on January 1, 2020, eliminates the ability for many beneficiaries inheriting retirement accounts to "stretch" withdrawals over their lifetimes. You should review the impact of this new law on retirement accounts, particularly if you are aware of retirement accounts that have a trust named a s beneficiary.

Prior to this new law, when a person dies who has an individual retirement account (IRA) or other tax-deferred retirement account (including a 401(k) or 403(b), whether conventional or Roth plans), the balance in the account often could be withdrawn over the life of the **beneficiary**, stretching out the income tax deferral for decades.

Today, if the original account owner dies in 2020 or after, retirement accounts must be withdrawn in full by the end of the 10th year following the account owner's death.

- **Quality Assurance Check** - If the retirement account beneficiary is a trust, unless the trust properly accounts for the new law, the withdrawal period may be even shorter. The trust terms may need to be amended in order to allow the application of the 10-year withdrawal rule rather than an even less favorable rule.

Two benefits of the new law are:

- The age for beginning required minimum distributions (RMD) is now 72 years old, instead of 70½.
- There is no longer an age at which you must stop making IRA contributions, as long as you are still working. These changes allow more tax-free growth in the account.

The unfavorable withdrawal rule changes apply only to beneficiaries of the accounts after the individual's death. Stretch treatment may still be available for these beneficiaries of the original account owner: 1) the surviving spouse; 2) a child who has not reached the age of majority (but only until that child reaches majority); 3) a person who is no more than 10 years younger; or 4) a disabled or chronically ill person.

So, what should be done in response to these SECURE Act changes?

- Review beneficiary designations and the current balances of your retirement accounts
- If the retirement plan designates a trust as either primary or contingent beneficiary, conduct an estate planning review to determine whether an amendment to the trust or changes to your beneficiary designations are necessary
- Discuss with your client the impact that these changes may have on their overall income tax planning.

Planning for retirement can be difficult time and it's important to know that your client's goals, assets, and wishes are aligned with one another. If your clients are concerned about the state of their retirement account(s), assets and estate plan, schedule a meeting with them. With so many of life's most important decisions in play, your clients can have "peace of mind" knowing that their financial future is in the trusted hands of a trusted advisor.

About Trust Connection

As a Trust Representative Office of National Advisors Trust, we represent the largest federally-chartered trust company created by Registered Investment Advisors (RIAs). Our trust service model is built on the strength of the local support and responsiveness provided by you—the local estate planning professional, Valley National Advisers— the local and trusted investment advisor and National Advisors Trust serving as the trust administrator. This combined expertise allows us to excel in the services we provide delivering the best possible outcomes for our mutual clients.

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