The SECURE Act

SEQUOIA FINANCIAL GROUP

Massive Changes to Qualified Plans & IRAs

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Basic Relevant Provisions

Changes RMD age to 72

Eliminates Stretch IRAs (taking inherited IRAs for non-spouse beneficiaries over the life expectancy of the beneficiary)

Allows contributions to traditional IRAs after 70½

Allows long-term part-time workers to be in §401(k) plans

Allows more annuities in §401(k) plans

Allows up to $5,000 of penalty-free withdrawals from §401(k) within a year of birth or adoption for qualified expenses

Allows withdrawal of up to $10,000 from §529 plans to repay student loans

Most Significant Changes: RMD & Stretch

- What are the rules?
  - 70½ - 72
  - 10-year rule: Nonspouse beneficiaries must generally withdraw within 10 years
- What does this mean?
  - Heirs will face significant tax bill
  - Inherited IRA planning critical
  - Pre-mortem v. post-mortem tax brackets
- How do we change planning?
  - Roths more logical
  - Bracket management
    - Heirs
    - Owners
  - QCD

RMDs on IRA With a Balance of $500,000 at 70½*

Beginning at Age 70½

AGE	RMD AMOUNT	YEAR-END BALANCE
70½	$18,248	$510,657
75	$23,929	$555,477
80	$30,765	$577,215
85	$38,433	$562,196

Beginning at Age 72

AGE	RMD AMOUNT	YEAR-END BALANCE
72	$21,945	$572,246
75	$25,809	$599,126
80	$33,183	$622,572
85	$41,453	$606,373

*January 1 of the year you turn 70½. Assumes a 6% return. SOURCE: IRAHelp.com

- RMD would be at 72 versus 70½
- Still can take earlier distributions
- Can contribute now to a traditional IRA (and Roth) after 70½:
  - Must have earned income
  - Both spouses can contribute
  - Only one spouse needs income

RMD 70½ vs 72

Stretch Qualified Plan/IRA Eliminated

Prior Law

- Spousal rollover OK
- All non-spouse beneficiaries could stretch distributions over life expectancy
- Unnamed beneficiaries or estates had to distribute within 5 years

New Law

- Spousal rollover OK
- Eligible beneficiaries can stretch:
  - Minor children (until age of majority)
  - Disabled or Chronically ill
  - Within 10 years of age of IRA owner
- All other designated beneficiaries must take within 10 years
- All non-designated beneficiaries still distribute under prior law

Likely Impact

- This affects beneficiaries based on the balance at the date of death of the second spouse
  - <$100K, not significant problem
  - >$100K <$400K, manageable
  - >$400K, planning advised
- Choices:
  - Let beneficiaries worry about it
  - Manage it (bracket, Roth, trusts)
  - Insure it

Pre-Mortem and Post-Mortem Planning

- Note the new rule affects not only all IRAs, but all qualified defined contribution plans: (§401(k), 401(a), 403(b), 457(b), ESOPs, Cash Balance and Defined Benefit with lump-sum options
- This applies to Taxable and Roth
- Note pre-mortem one spouse may be single (higher bracket)
- Note TCJA brackets expire 12/31/25
- Now post-mortem bracket may be much higher to heirs

Bracket-ology

Managing tax bracket has moving parts

'Floors' change bracket:

- Social security
- Child Credit
- College credits
- Medicare B &D

TCJA expires 12/31/25, old rates reinstate (unless changed)

Single Filers

NEW Rate	NEW Bracket	OLD Rate	OLD Bracket
10%	Up to $9,525	10%	Up to $9,325
12%	$9,525 - $38,700	15%	$9,325 - $37,950
22%	$38,700 - $82,500	25%	$37,950 - $91,900
24%	$82,500 - $157,500	28%	$91,900 - $191,650
32%	$157,500 - $200,000	33%	$191,650 - $416,700
35%	$200,000 - $500,000	35%	$416,700 - $418,400
37%	$500,000 and up	39.6%	$418,400 and up

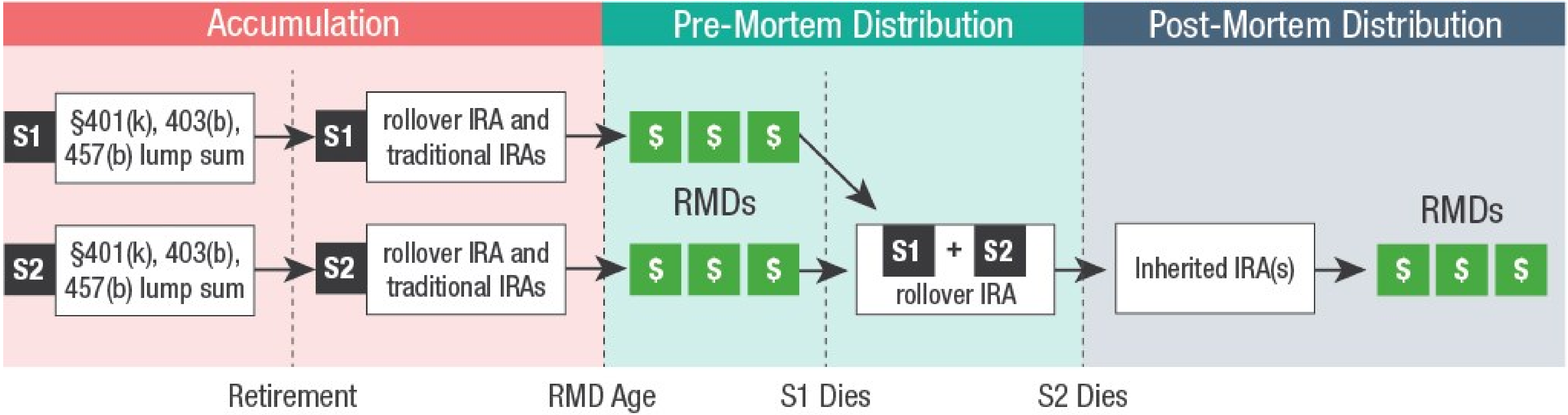
Married Filing Jointly

NEW Rate	NEW Bracket	OLD Rate	OLD Bracket
10%	Up to $19,050	10%	Up to $18,650
12%	$19,050- $77,400	15%	$18,650 - $75,900
22%	$77,400- $165,000	25%	$75,900 - $153,100
24%	$165,000 - $315,000	28%	$153,100 - $233,350
32%	$315,000 - $400,000	33%	$233,350 - $416,700
35%	$400,000 - $600,000	35%	$416,700 - $470,700
37%	$600,000 and up	39.6%	$470,700 and up

Source: forbes.com

*2017 pre-TCJA vs. 2018 TCJA rates

Pre-Tax Accumulation and Distribution



Example:
Pre-Tax Accumulation & Distribution

- Ozzie and Sharon have respective 401(k) plans that they rolled into IRAs. Ozzie is 70, Sharon is 66. Ozzie's IRA is worth \$1.3M, Sharon's is worth \$550K
- They have three kids, Huey (38), Dewey (36) and Louie (30)
- Assume their IRAs make 6%
- Assume both live to the age of 85
- Assume Sharon rolls Ozzie's IRA into hers at his death
- Assume they leave Sharon's IRA to the kids equally

Example:
Pre-Tax Accumulation & Distribution

Prior Law: Stretch

- Ozzie's RMD: $47,445
- Sharon's RMD: $25,342
- Ozzie's balance at death: $1,544,204
- Sharon's balance at her death (including Ozzie's rollover): $2,362,287
- Kids take stretch at Sharon's death

Payouts:

- Huey (starting RMD/balance at 10 years)
  - Starting RMD: $29,272
  - Balance at 10 years: $906,354
  - Total distributions: $2,002,937
- Dewey
  - Starting RMD: $27,532
  - Balance at 10 years: $931,820
  - Total distributions: $2,138,957
- Louie
  - Starting RMD: $23,092
  - Balance at 10 years: $996,643
  - Total distributions: $2,648,074

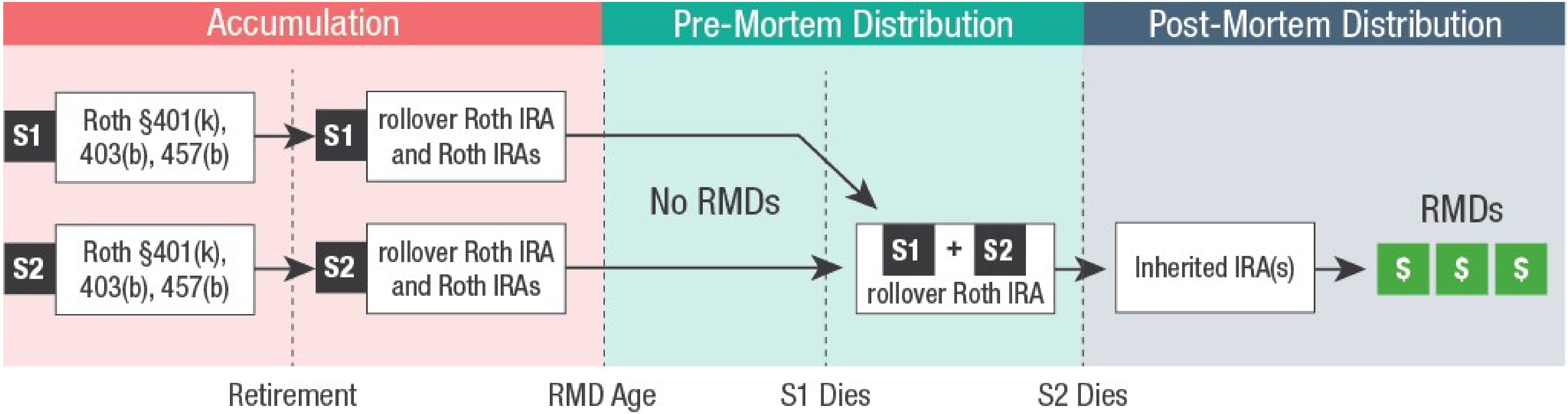
SECURE: No Stretch

- Ozzie's RMD at 72: $57,321
- Sharon's RMD at 72: $30,808
- Ozzie's balance at death: $1,665,957
- Sharon's balance at her death (including Ozzie's rollover): $2,554,116
- Kids take 10 year even payout at Sharon's death

Payouts:

- Huey (even distribution over 10 years)
  - Distribution: $109,127
  - Balance at 10 years: $0
  - Total distributions:$1,091,270
- Dewey (even distribution over 10 years)
  - Distribution: $109,127
  - Balance at 10 years: $0
  - Total distributions:$1,091,270
- Louie (even distribution over 10 years)
  - Distribution: $109,127
  - Balance at 10 years: $0
  - Total distributions:$1,091,270

Roth Accumulation and Distribution



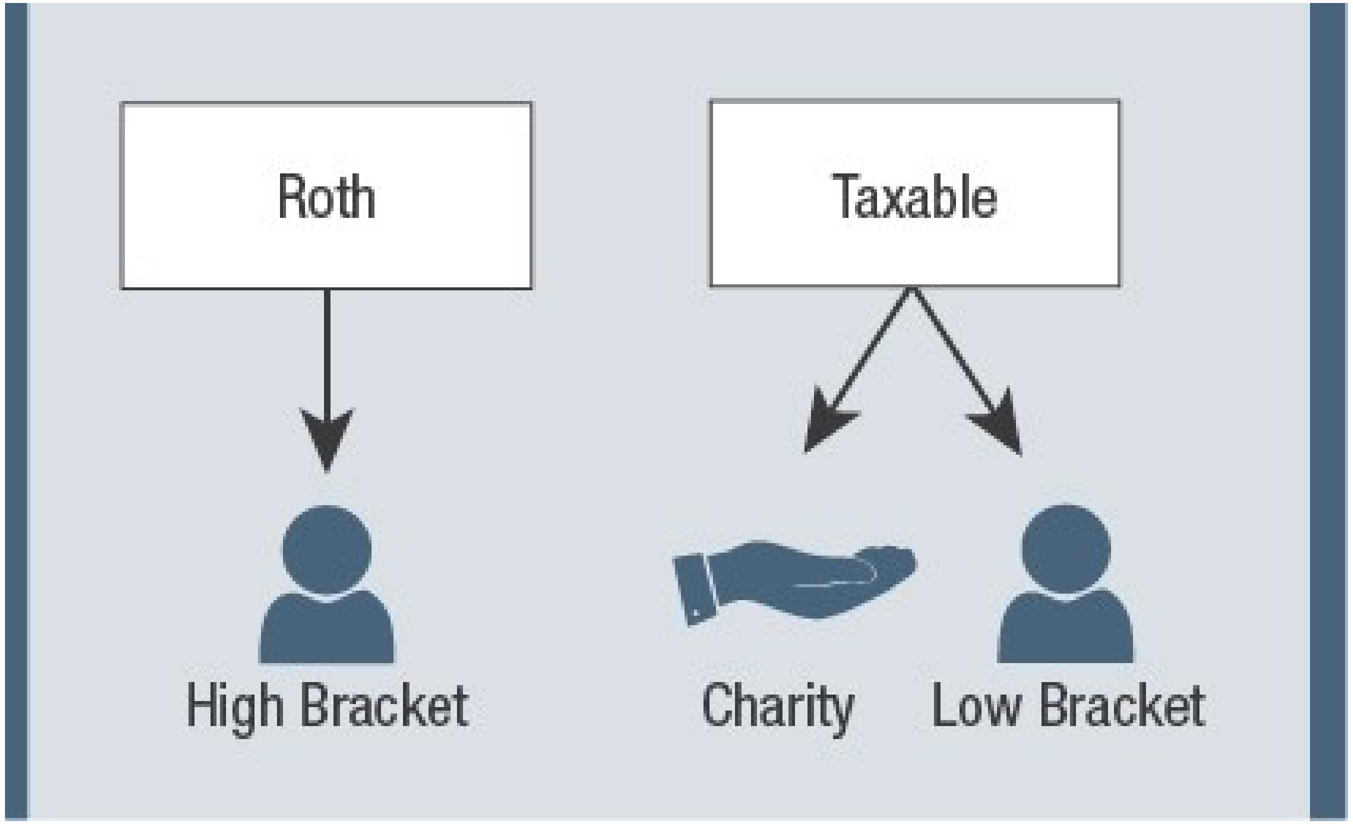
Application of New Rules

Taxable IRAs will require bracket management

Roth IRAs would logically defer tax-free

Segregation of IRA beneficiaries considerations:

- Charity = traditional taxable IRA
- Roth = high bracket individual
- Traditional = lower bracket
- Traditional = business owner for offsets?



New Inherited IRA Rules

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10

Distributions must be completed

APPLICABLE TO:
- Non-spouse
- Not disabled or chronically ill
- Not under age of majority
- Not within 10 years of IRA owner

Inherited Taxable IRAs

Possible Applications of the 10-Year Rule

Taxable IRAs

- Have to be distributed within the ten-year period
- Can ‘bracket-manage’ for distribution years
  - Charity
  - Business losses
  - Other QRP contribution
  - State taxes
- Up-front most costly
- Bracket spreading

Beginning of Period Withdrawal Strategy

~1,000,000 Taxable IRA, One-Beneficiary

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10

~$300,000
fed tax + state tax
(MFJ, no other income)

6% pre-tax return,
4.7% after-tax return

~$1,109,500
year 10 value

Equal Withdrawal Strategy

~1,000,000 Taxable IRA, One-Beneficiary

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10

Equal payments of
~$135,900

6% pre-tax return,
4.7% after-tax return
Assumes reinvestment after taxes

~$1,580,000
After federal taxes

End of Period Withdrawal Strategy

~1,000,000 Taxable IRA, One-Beneficiary

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10

6% pre-tax return,
4.7% after-tax return

~$1,791,000 gross
year 10 value
Fed taxes ~$578,000
Net $1,213,000

Bracket Management: IRA Distribution Offsets

Individual Offsets

- Charity
  - DAF
  - CRUT/CRAT
  - CLUT/CLAT
  - Appreciated Property
  - ‘Bunch’ and offset
  - QCD (if 70 ½ or over)
- Qualified Plans
  - §401(k), 403(b), 457(b)
  - IRA
  - HSA
- Spousal Business

Business Offsets

- 199A pass-through offset
- Bonus depreciation/§179
- Excess loss limitation offset
- Qualified Plans
  - §401(k)/profit sharing ($63K)
  - Cash Balance ($200K +)
  - Defined benefit ($200K +)

Example of Bracket Management: Business

- Melissa, 38, is a radiologist and married to Todd, who owns a construction company, which is a Sub-S corporation
- Melissa inherits a $1M taxable IRA from her widowed mother, who died on June 30, 2020. Their income is about $500K
- Melissa will have to choose how to take funds out of the IRA within the 10-year period, which will end 2031 (the starting date is the year after the death of the Owner)
- They, their planner, and Todd's CPA look at these ideas:
  - Todd needs new equipment for his business totaling $900K. He will use 'full-expensing.' This will drive $900K of expense to his bottom line. He'll do that in 2021
  - Melissa will fully contribute to her 403(b) at the hospital
  - Todd will contribute as an employer in 2021 to his profit sharing plan and apply a formula that benefits the longest tenure
  - Melissa will withdraw from the IRA the equivalent distribution to offset the purchases and expenses

Example of Bracket Management: Individual

- Willard, 48, is single and a college professor
- He has taxable income of $124K a year
- He inherited a $500K IRA from his widowed mother, who died on February 2, 2020
- Willard gives $5-10K a year to charity
- Otherwise he has $20K Total itemized deductions

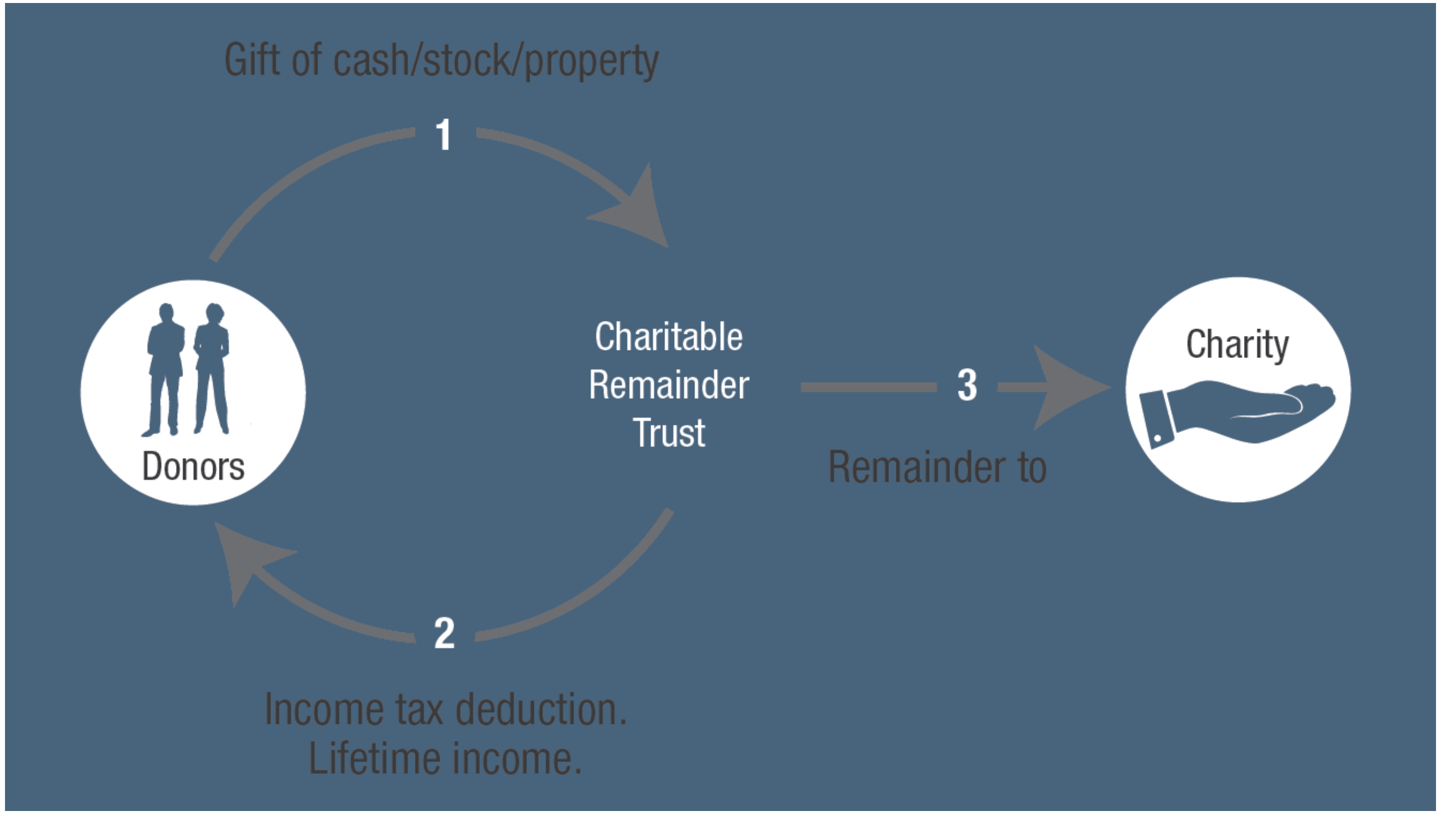
- If Willard distributed evenly, and makes 6%, he'd add about $68K to his income. That brings part of his income into the 32% bracket
- He could make a Donor Advisor Fund Donation of $73,500 and offset that with an additional IRA distribution
- That would level his distributions into the 24% bracket at $60,750 a year
- He's then make all of his charitable donations from the DAF and take the larger standard deduction

*Calculations based on 2019 tax brackets

Example of Charitable Remainder Trust

Elizabeth, 50, inherits a $1M IRA from her deceased mother, who died in 2020. They both attended the same university and want to donate to it.

- Option 1: offset a distribution with a donation to the university
- Option 2: immediate 5% CRUT (5% to Elizabeth), $268K deduction
- Option 3: equalize current distribution and CRUT at the end of the 10 years



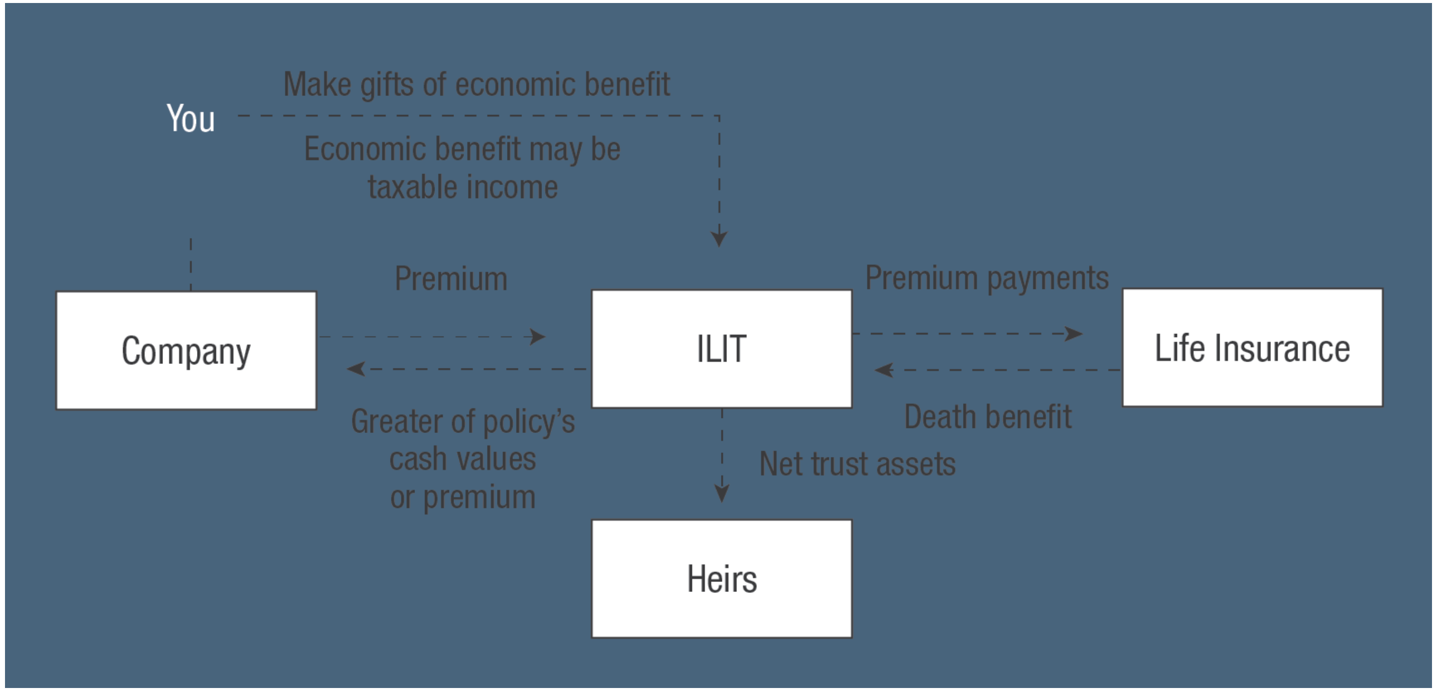
Life Insurance

Life insurance can be used to fund the taxes on the Inherited IRA

From previous examples, $1M taxable IRA, taxes up front would be ~$300K

Owner buys $300K second-to-die policy, puts in Irrevocable Life Insurance Trust (ILIT)

Insurance pays on death, tax-free



Inherited ROTH IRA

Possible Applications of 10-Year Rule

Beginning of Period Withdrawal

~1,000,000 Roth IRA, One-Beneficiary

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10

Roth, no taxes

6% pre-tax return,
4.7% after-tax return

~$1,583,000
year 10 value

End of Period Withdrawal

~1,000,000 Roth IRA, One-Beneficiary

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10

6% pre-tax return,
4.7% after-tax return

~$1,791,000 gross
year 10 value

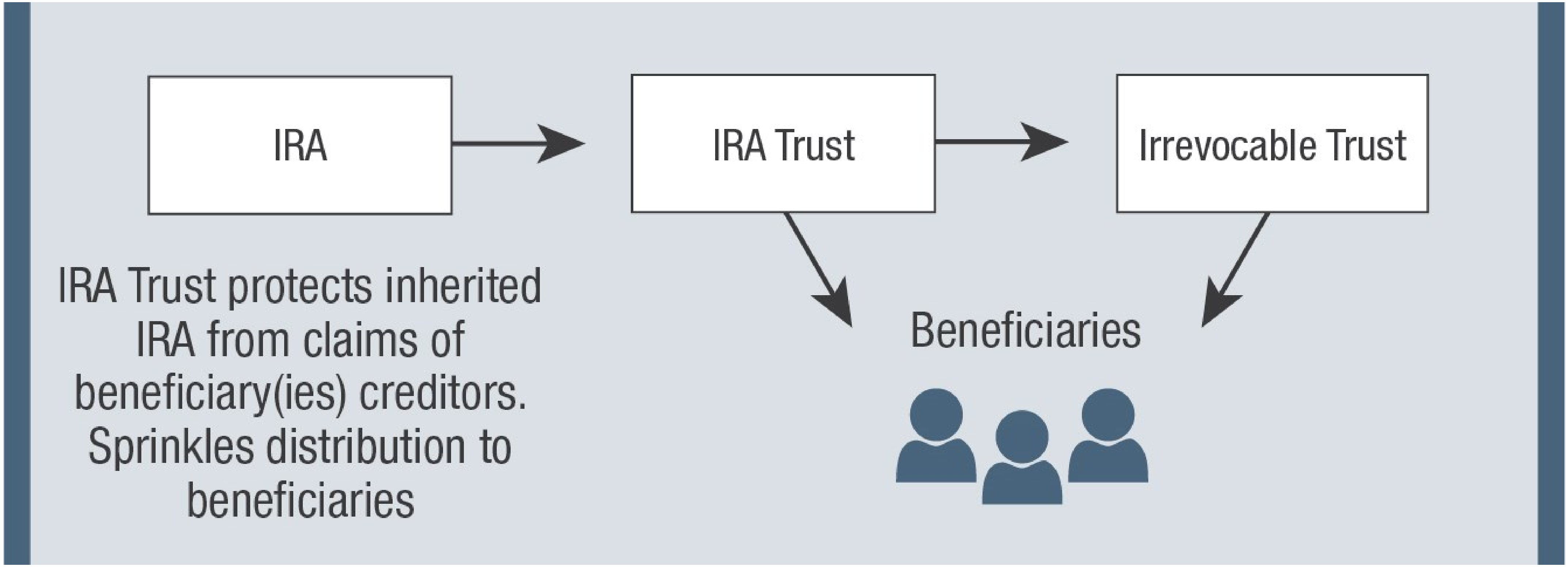
Trusts as Beneficiary

RLT, IRA Trusts, and CRTs

Revocable Living Trust with Pass-Through (see-through)

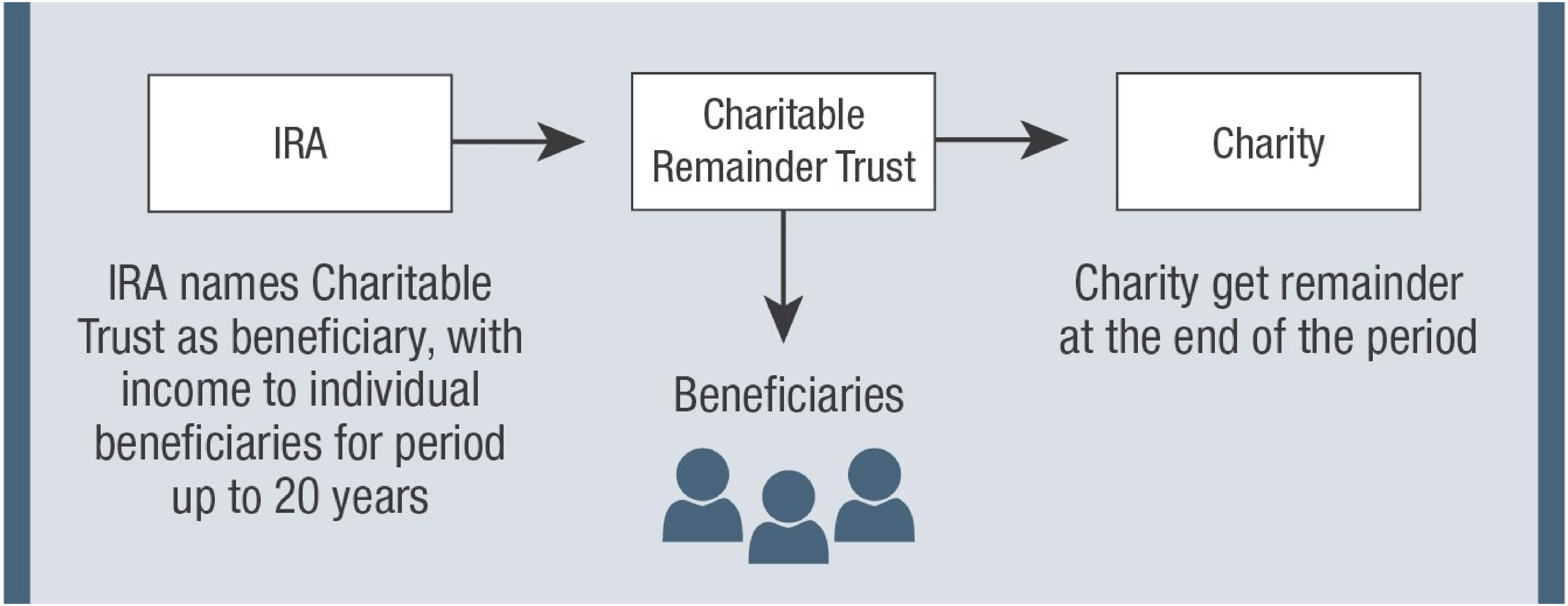
- With demise of stretch, regular RLT may be more in vogue
- Old disadvantage appears to be eliminated
- Old rule required lifetime of oldest living beneficiary (weird result?)
- New rules would apply over 10-years
- Still allows some asset protection
- Still allows control

IRA Trust: Conduits Limited



CRUT or CRAT

As IRA Beneficiary



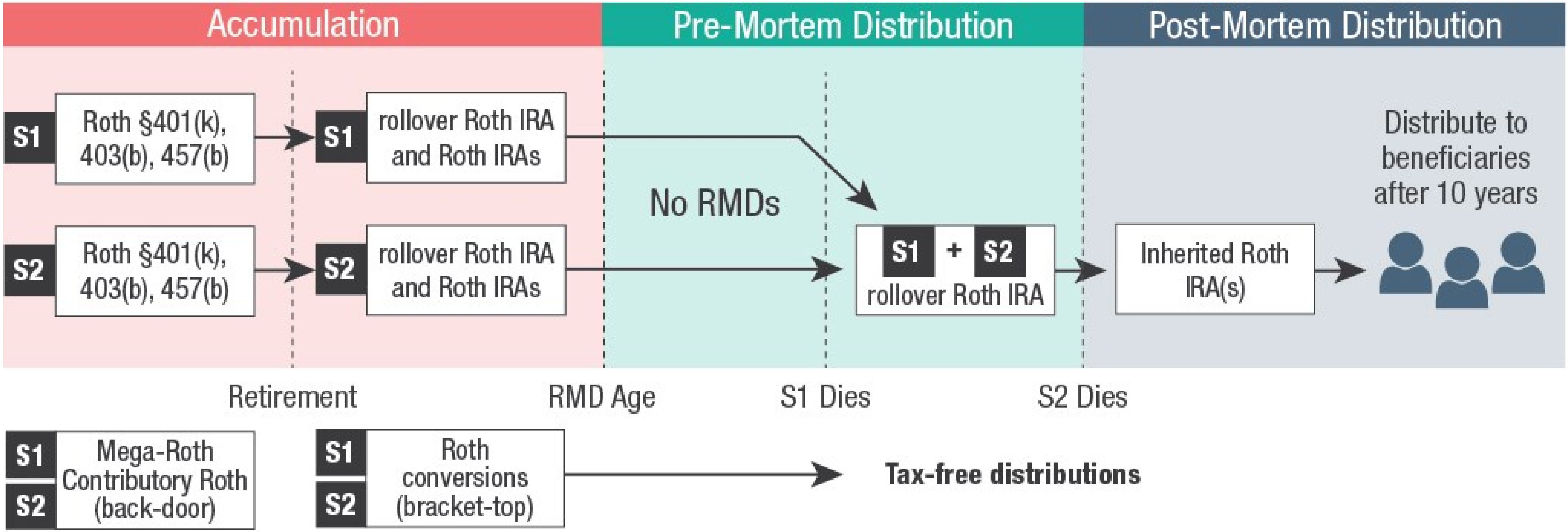
ROTH Strategies

Ways to Accumulate More Tax-Free

New Life for Roths

- Roth allows tax-free accumulation and tax-free distribution (after 10 years) to beneficiary
- TCJA expires 12/31/25
- RMD math shifts distribution higher and bracket creep
- RMD for couple usually leaves one spouse single in higher bracket

Roth Accumulation and Distribution



Roth Funding

Type	Limit Per Spouse	Requirements	Stipulation
Contributory	$6,000 ($7,000 if 50+ or older)	Income <196-206K (MFJ) <124-139 (Single). At least one spouse must have earned income	Can do in addition to §401(k)
Back-Door Roth	$6,000 ($7,000 if 50+ or older)	No income limit. At least one spouse must have earned income	Either contributory or back door
§401(k), 403(b), 457(b) Roth	$19,500 ($26,000 if 50+ or older)	After-tax contribution	Roll to Roth IRA on retirement
Mega-Roth After-Tax in Plan	Up to $37,500	§401(k) must allow it. Plan testing	Must do salary deferral first
Roth Conversions	Unlimited	Must pay taxes	Taxes should be paid from non-deferral sources

2020 Income Tax Bracket Thresholds				
Tax Rate	Single	Married Filing Jointly / Surviving Spouse	Married Filing Separately	Head of Household
10%	$0	$0	$0	$0
12%	$9,875	$19,750	$9,875	$14,100
22%	$40,125	$80,250	$40,125	$53,700
24%	$85,525	$171,050	$85,525	$85,500
32%	$163,300	$326,600	$163,300	$163,300
35%	$207,350	$414,700	$207,350	$207,350
37%	$518,400	$622,050	$311,025	$518,400

Bracket-Topping

- Take IRA distributions up to the edge of the bracket
- Taxable income, not AGI
- Convert to Roth
- Spend
- Invest outside of IRA

Bracket-Topping Example:

- Tristan and Isolde are both 62
- They have 2 adult children, Cassie and Peter (twins) age 30
- They have accumulated $1M in their §401(k) plans
- They have a portfolio of $3M (from sale of company)
  - $1M in muni bonds, tax-free
  - $2M in dividend-focused equities, $60K qualified dividends
- They have sufficient bank deposits to cover any expenses
- They are delaying Social Security to age 70
- No mortgage interest, standard deduction
- They want to bracket-top and convert to Roth
- Tax bracket effectively zero
- Have up to $42,950 of unused tax bracket
- $2,157 of federal taxes
- Dividends and muni taxed at 0%

*Calculations based on 2019 tax brackets

Bracket-Topping Example: continued

- After 10 years (age 72), at 6%, they would have accumulated over $566K in their Roths
- Their taxable IRA would be about $1.21M v. $1.79M if no conversions
- Taxable RMD reduced by about $22,400
- Total federal taxes paid about $21,500
- If one of the couple lives to age 90, the Roth would be worth (at 6%) $1.6M
- If the kids hold the Roth for 10 years, balance is now $2.8M
- $2.8 M wealth transfer for $21,500 cumulative taxes.

*Calculations based on 2019 tax brackets

Investing Inherited IRAs

Dedication and Dovetail

Taxable IRA Investing with 10-Year

Could use straight bond ladder

- Ladder 10-years
- High-Q or Treasuries
- Add-in interest

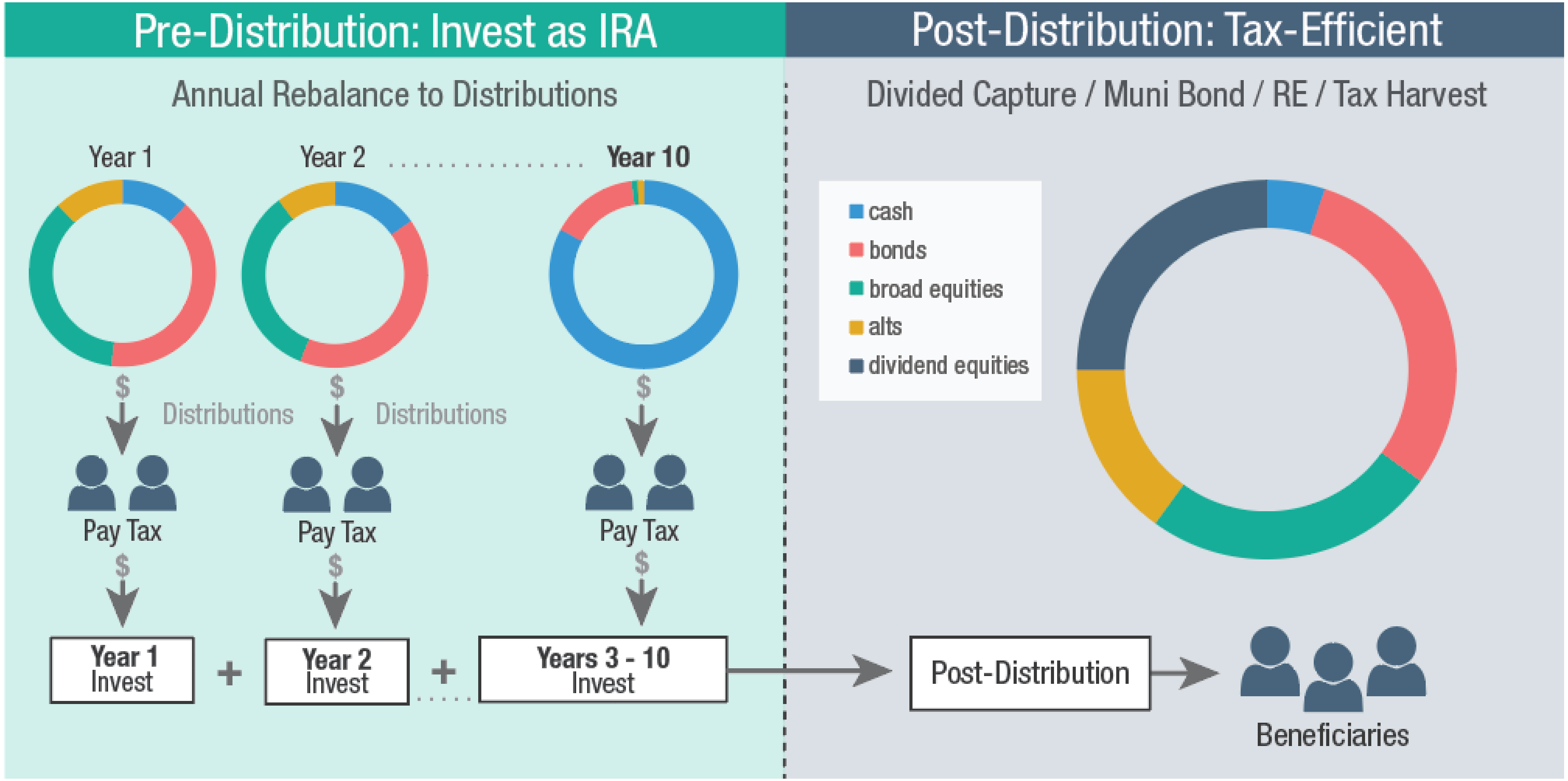
Ladder 2 bonds/5 years and spread

- E.g. year one matures, use one bond for distribution and set other to year 6
- Continue years 2-5

Modify a mixed portfolio to account for distribution

Year	Distribution	Bond & Cash	Equities	1,000,000
1	135,900	369,640	554,460	924,100
2	135,900	337,458	506,188	843,646
3	135,900	303,346	455,019	758,365
4	135,900	267,187	400,780	667,967
5	135,900	228,858	343,287	572,145
6	135,900	188,229	282,344	470,573
7	135,900	145,163	217,745	362,908
8	135,900	124,391	124,391	248,782
9	135,900	76,685	51,124	127,809
10	135,900	0	0	0

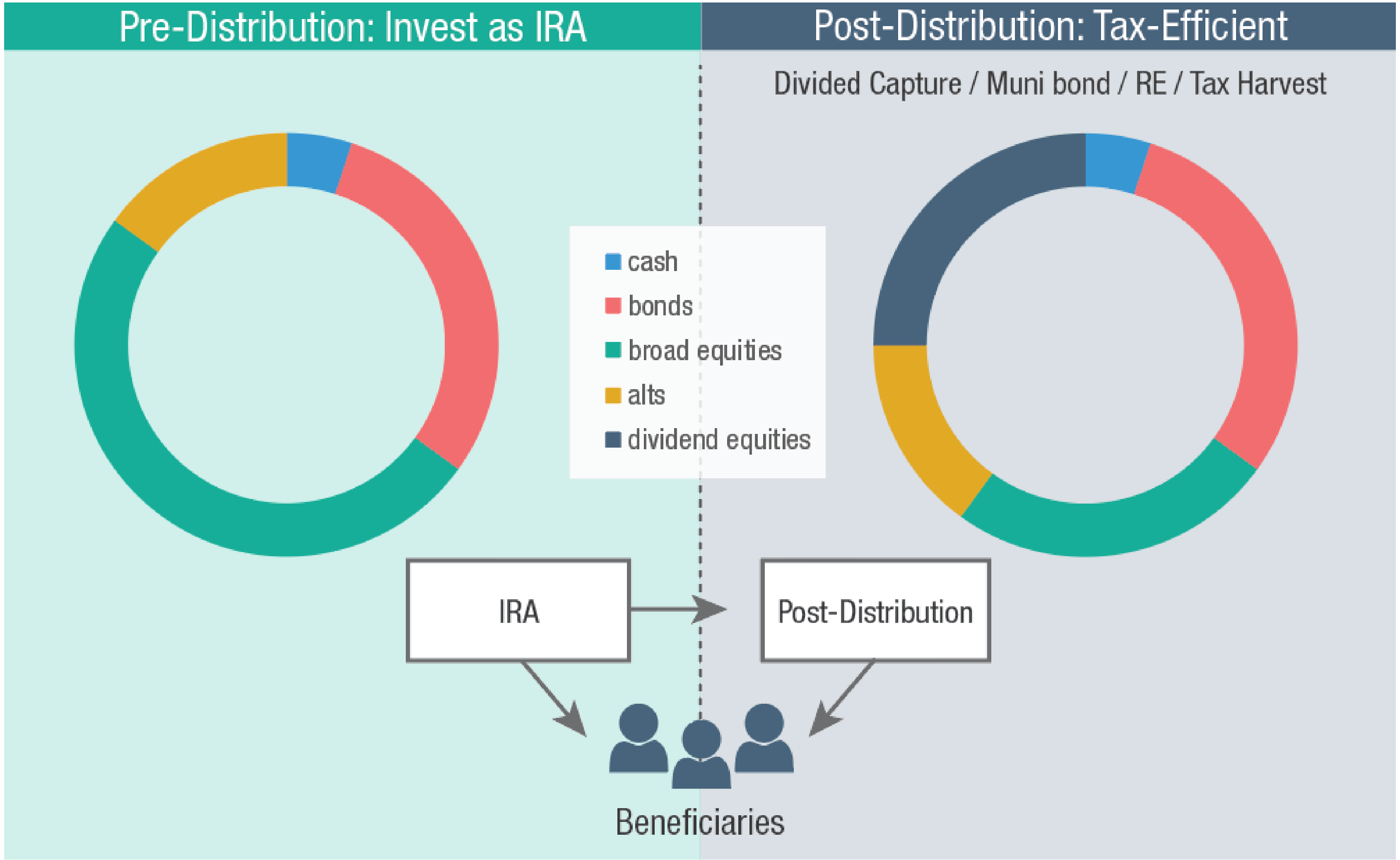
10-Year Taxable IRA Investing



In-Kind Distributions from Taxable IRAs

- You can take in-kind distributions from an IRA
- This means withdrawing a fund, ETF or stock from the IRA, presumably when you don't want to sell it
  - Reduces future taxable income (IRA versus other)
  - Hold withdrawn investment for >1yr, Capital Gains
  - Hold withdrawn investment until death, step-up and no tax
- Allows effective withdrawals in down market cycles as tax management tool

Roth Investing



What To Do: Roth Strategies

Age 72+:

Use QCD, possibly use RMD Roth strategy

Age 70 ½ - 72:

Delay RMD, bracket top to convert

Ages 60-70:

Optimum bracket topping Roth conversion period

Ages 50-60:

In plan-Mega Roth, Roth IRA, Back Door Roth, Roth DRAC

Ages 40-50:

Roth IRA, back-door Roth, Roth DRAC

Ages 30-40:

Roth IRA

Ages 20-30:

Roth IRA

Case Study 1: Business Offset

- Jeff and Beth are veterinarians in an LLC taxed as a partnership
- $250K of Taxable Income, all QBI
- $25,000 each in 401(k) yearly
- SSTB <$315K
- Change 401(k) to DRAC
- Increases QBI deduction by $50,000
- Deduction versus deferral
- Use Roth until TCJA expires 12/31/2025
- 6%: $420K, no RMD, 10-year

*Calculations based on 2019 IRS limits

Case Study 2:
Full Expensing Offset

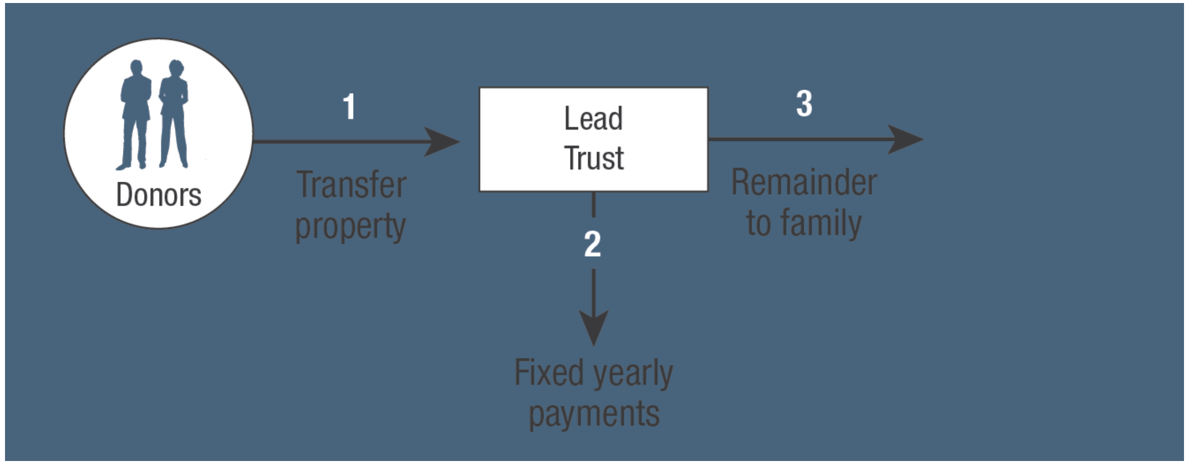
- Herb is 64, owns a construction company, Sub-S
- Has $1M in his 401(k)
- Other assets
- Needs $1M equipment for big project
- Can full-expense equipment (expires end of 2022)
- In-service withdrawal of $1M, convert to Roth. Depends on other income
- $1M income from Roth conversion offsets §168(k) full expensing

Case Study 3: Charity Offset

- Couple over 59½, at least one working
- Large 401(k) (>$500K)
- Income $150K
- Itemized deductions
  - $10K SALT
  - $10K mortgage interest
  - $10K Charity
- Do in-service rollover $100K, convert to Roth
- $100K Donor Advised Fund (DAF)
- Use DAF to make charity contributions for 10 years

Case Study 4:
CLT Offset

- Business owner couple 68
- Lots of assets
- Owns appreciated stock with basis $100K, worth $1M
- 401(k)/IRA $1M
- Donate stock to Charitable Lead Trust, 50K a year to University, remainder to kids in 20 years
- ~$758K charity deduction
- Offset with $1M Roth conversion
- Remainder to kids
- $1M out of estate, $1M tax-free

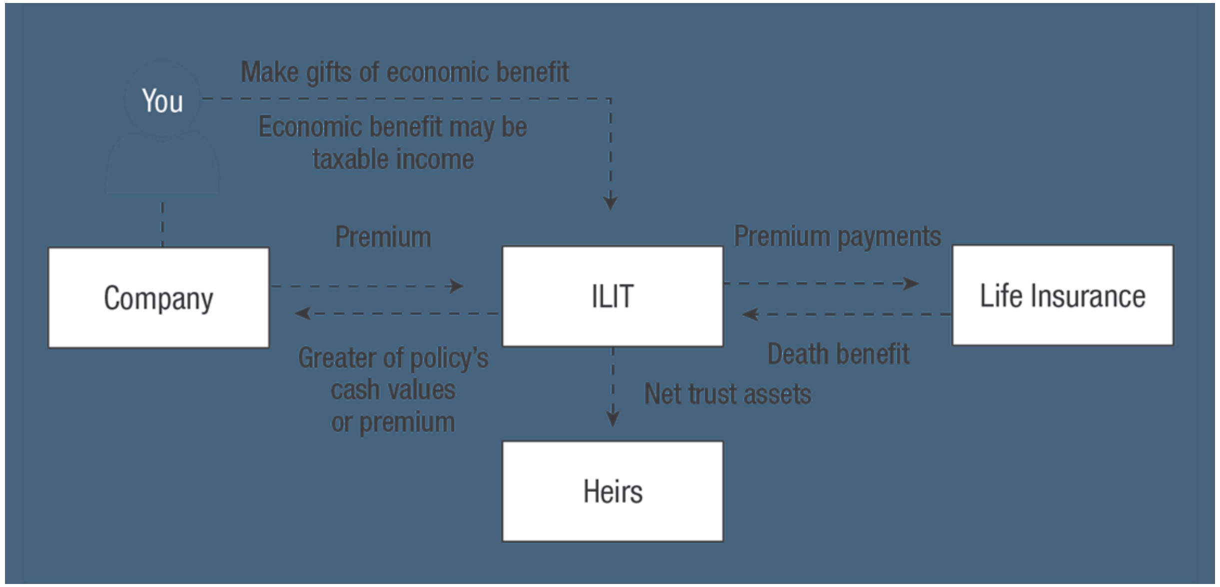


Case Study 5:
Estate Tax

- Widow, 80, poor health
- Estate worth $12M
- Note TCJA expires 2025 (maybe sooner)
- IRA worth $1M
- Income (incl RMD) $200K
- Convert, pay ~$320K tax
- Reduce estate by $320K
- Eliminate income tax to heirs

Case Study 6: New use of ILIT

- Couple, 55, high income (>$300K)
- Big 401(k)s ($1.2M) large employer match
- Will continue to save
- Projected balance 10 years $2M, age 85 after RMD, $3.2M
- Purchase 2nd to die Life insurance for $1M to pay income taxes
- $8K premium
- ILIT provides tax payments



Case Study 7: Simple Situation

- Couple, ages 35/30
- Income under $196K
- Both working
- Young kids
- 401(k) at work, employer matches first 5%
- Continue 401(k) match and pretax
- Save additional in Roth IRA
- FIFO big advantage

Case Study 8: RMD to Fund Roth Conversion

- Over 70½/72
- Doesn't like or need RMD
- Usually takes RMD and saves it
- Use RMD to pay taxes on Roth conversion
- Example: RMD is $36,000
  - Withhold 100% convert fully
  - Withhold enough to convert and bracket top

Case Study 9: Mom Roth

- Older parent with IRA
- Low tax bracket
- Doesn't need RMD
- Kids in higher brackets
- Bracket-top and convert to Roth
- Eliminates RMD
- Tax-free to kids
- Long-term care offset
- Watch SS and IRMMA floors

Case Study 10: Kid Roth

- 16-year-old earns over $6,000 a year.
- Until age 25, Mom or Dad (or maybe Grandma or Grandpa) deposit $6,000 in a Roth, putting it in an index fund as a gift.
- Deposit at the beginning of the year, 6% annual return.
- Age 25, the Roth would contain about $79,000.
- Don’t disturb until age, 65, the Roth would be worth over $813,000, tax-free, all from ten $6,000 contributions.
- Cost to donor is the opportunity cost of the money
- Kids (or donor) continues to make contributions, the kid would have $1,637,000 at 65.
- Withdraw 4%, $65,510 a year tax-free during his/her retirement years.

Case Study 11: Dynasty Roth

- 62 year old couple
- Convert $61,400 a year for 8 years (bracket-top)
- Accumulates $607,000 (6%)
- Taxes about $59,200
- Stop Roth conversions at 70 (Social Security)
- Hold until survivor dies at age 90
- Roth worth then about $1.949M
- Defer 10 years, worth about $3.5M

*Calculations based on 2019 tax brackets

Case Study 12: Lump-Sum DB Plan

- Many large (and small) corporations offer lump-sums as an option in their DB plan
- Full evaluation of lump-sums are at lumpsumanalyis.com
- Ford (salary), GM (salary), AT&T (salary and hourly), DTE (salary & hourly), Ohio Teachers (PLOP), Ohio Police, NCR, Honda, Allstate, Blue Cross all offer a lump-sum
- All companies also offer 401(k)
- New IRS rule suggests more lump sum offers on the horizon under IRS Notice 2019-18

Estate and Financial Planning Considerations

1. Consider overall goals and objectives
2. Consider beneficiary to trust
3. Consider 'see-through' modification in trust
4. Consider Roth strategies
5. Consider insurance to fund taxes
6. Consider allocation of IRA assets to appropriate beneficiaries
7. Consider beneficiary education piece

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