

DO A BENEFICIARY CHECK



Submitted by Dennis B. Pellegrini, ChFC, AEP, MSFS, Investment Adviser, Peak Brokerage Services, LLC

On December 20, 2019, Congress passed the Secure Act, which has been entirely overshadowed by Coronavirus. Most do not even realize how the Secure Act can benefit their retirement savings.

Some of the critical changes effective for 2020 are:

- Eliminates the 70 1/2 age limit for making traditional IRA contributions.
- Raises the Required Minimum Distribution (RMD's) age to 72.
- Tax Credits for small businesses that start up a retirement plan.
- Eliminates the Stretch IRA and created three new categories of IRA Beneficiaries.

We will focus on the three new categories of IRA beneficiaries. Before we do, you need to understand the following two observations: One, things always change. Life events like marriage, divorce, death, disability, terminal illness, and birth are examples of change. Two, beneficiary designations supersede a will. IRA's, 401k's, annuities, life Insurance all have

beneficiary designations and do not get transferred according to a will.

For example, assume your favorite band is going on tour, and there are three categories for purchasing tickets — General Admission, Preferred Partners, and VIP. General Admission gives you a bird's eye view of the show. As a Preferred Partner, your view of the show will be much better. After the show is finished, you will walk away with a big smile on your face. As for the VIP package, you will feel as though you were on the stage. The show will be one you will remember for many years. That is how it is with retirement plan payouts to beneficiaries under the SECURE Act. You have the Non-Designated Beneficiary, a.k.a. General admission.

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The Non-Eligible Designated Beneficiary, a.k.a. The Preferred Partner. And finally, Eligible Designated Beneficiary, a.k.a. The VIP package.

Let's take a look at each one separately:

The first category, Non-Designated Beneficiary (NDB), is for beneficiaries who are not people.

Examples of this would be estates, charity, or non-qualifying trust. Depending on when the account owner dies, will determine the payout rules. Under the NDB, the account withdraws may need to be completed by the end of the 5th year after death.

The next category is the Non-Eligible Designated Beneficiary (NEDB), which will be subject to the new ten-year rule. Under NEDB, the entire account must be emptied by the end of the 10th year after death. No stretch IRA is available, and there are no required minimum distributions. The beneficiary can take withdrawals in any year as they wish, as long as the account is emptied by the end of the tenth year.

Now for the VIP, Eligible Designated Beneficiary. This new category created by the SECURE Act exempts these beneficiaries from the ten-year rule.

There are five classes of EDB.

- Surviving Spouses
- Minor children
- Disabled individuals
- Chronically ill individuals
- Individual not more than ten-years younger than the IRA owner

These beneficiaries are unaffected by the new rules and, therefore, still have the option to create a Stretch IRA, giving them the flexibility to minimize the potential tax burden. What is a Stretch IRA?

The Stretch IRA is for the named beneficiary, which allows the post-death distribution to be spread out over the beneficiary's life expectancy. This is favorable because the tax burden will most likely be less versus having all or most of the distribution occur in a shorter time.

So do a beneficiary check! You'll be glad you did, and so will your loved ones.

For additional information, call Dennis Pellegrini at 610.898.1241. Please note: Peak Brokerage Services, LLC does not offer tax advice. Please consult with your tax professional. Advisory Services offered through Blackridge Asset Management, LLC, a Registered Investment Adviser. Securities are offered through Peak Brokerage Services, LLC, Member FINRA/SIPC. Blackridge Asset Management, LLC is separate and independent from Peak Brokerage Services, LLC.

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