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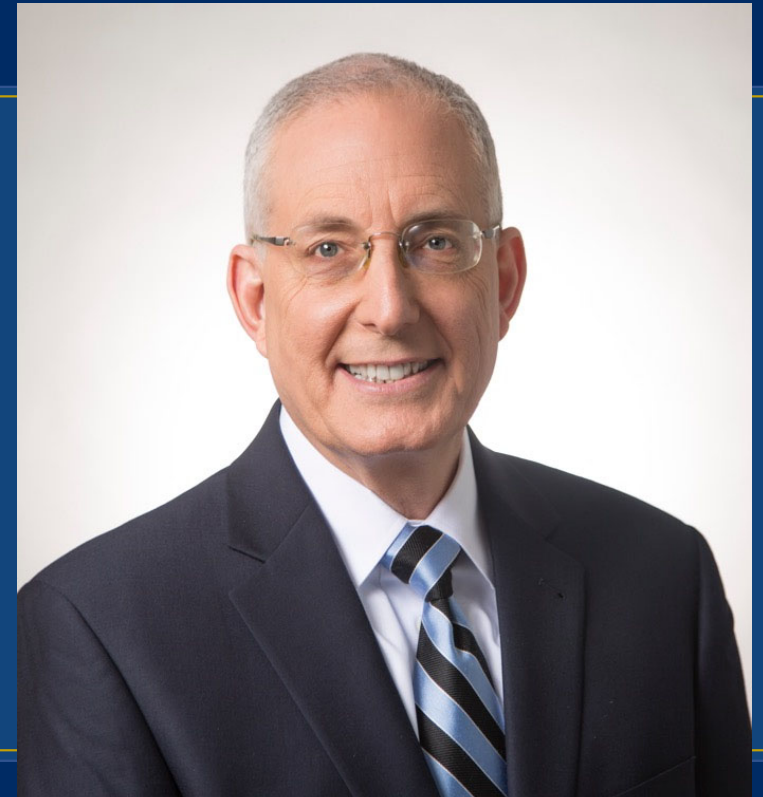
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Rethinking Retirement Tax Planning for 2023, and Beyond

Ed Slott's 3-Year Plan to Capitalize on Inflation & Taxes

Webinar with Ed Slott | October 13, 2023

Presented by:



FPA MI | 2023 Annual Symposium

Rethinking Retirement Tax Planning for 2023, and Beyond

Planning
Fundamentals? Not

1. SECURE Act Planning – Planning for the end of the stretch IRA
2. SECURE 2.0 Act – Highlights, explanations, and opportunities
3. Roth IRA Conversion Planning
4. Life Insurance Planning – The Power of Life Insurance
5. QCDs / Charitable Tax Planning

Rethinking Retirement Tax Planning for 2023, and Beyond

3-Step Action Plan:



IDENTIFY

- Identify clients who may benefit most from the recent tax changes



EXPLAIN

- Explain the new problems created and why their current retirement, tax or estate plans may no longer work as planned



SHOW

- Show them alternative planning solutions.
 - Rethinking retirement tax planning
 - Reverse traditional planning strategies
 - 3-year plan to capitalize on inflation and taxes

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☑ Identify - Which IRAs Are Most Affected?



< \$500,000
Largely unaffected

These **M** IRA balances will likely be consumed during a lifetime.



\$500,000 – \$1MM
Somewhat affected

A good portion of **L** IRA balances might be consumed during a lifetime, and the remaining funds to beneficiaries spread out over 10 years would not have a major tax impact.



\$ Multi-MM IRAs
BIG impact!

A good chunk of these **XXL** IRA balances may be left to beneficiaries and often in trusts.

Urgent! Planning options for these XXL IRAs are critical.

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1 – SECURE Act Planning

Planning for the end of the stretch IRA

SECURE ACT

Setting Every Community Up for Retirement Enhancement Act of 2019

Planning for the End of the Stretch IRA

► Critical Issues Must be Addressed for Large IRAs!

The SECURE Act is the law, and the stretch IRA has been eliminated.

PLUS - 2022 IRS Proposed Regs. issued on February 23, 2022

Clients need solutions.

Every IRA and company plan may be affected.



SECURE ACT

Setting Every Community Up for Retirement Enhancement Act of 2019

Key points:

- ▶ **Stretch IRA eliminated**
 - Replaced with a 10-year payout for all beneficiaries, except for certain “**Eligible Designated Beneficiaries**” (effective for 2020 and later years)
- ▶ **How the post-death IRA rules work now – *IRS Updated these rules on 2-23-22***
- ▶ **Which IRAs are most affected?**
- ▶ **Two biggest concerns for large IRA clients and how to *still* get both**
- ▶ **IRA trust problems – *they don't work anymore* – find out why and what to do *now!***

SECURE ACT

Setting Every Community Up for Retirement Enhancement Act of 2019

▶ **Old law:**

Stretch IRA for all designated beneficiaries – *individuals named on the IRA or plan beneficiary forms, and qualifying trusts*

◎ **2020 law:**

Stretch IRA is eliminated – *replaced with a 10-year payout for most non-spouse beneficiaries, **except for** “**Eligible Designated Beneficiaries**”*

“

Don't be fooled by the name Congress gave to their recent raid of your retirement savings.

They call the law the ‘SECURE Act,’ but it does the exact opposite when it comes to the retirement funds you leave to your children and grandchildren.

– Ed Slott, CPA, America's IRA Expert
Author of *The New Retirement Savings Time Bomb*

”

SECURE ACT: Eligible Designated Beneficiaries

Which beneficiaries can still stretch their inherited IRAs?

Eligible designated beneficiaries (EDBs) — 5 classes:

- 1. Surviving spouse**
- 2. Minor children**, up to the age of majority (age 21- regardless of state law - Per IRS Regs. released on 2-23-22) — but **not** grandchildren
- 3. Disabled individuals** — *under the strict IRS rules*
- 4. Chronically ill individuals**
- 5. Individuals not more than 10 years *younger*** than the IRA owner

Effective date: For deaths *after 2019*. For deaths *in 2019 or prior years*, the pre-SECURE Act “stretch IRA” rules would still apply.

SECURE ACT: How the Post-Death IRA Rules Work



"I realize that this may be carping, but I never did live long enough to enjoy my I.R.A. account."

CartoonStock.com

10-Year Rule

2022 Proposed Regs issued by IRS on February 23, 2022!

Could require RMDs for years 1-9, if death is after the required beginning date.

The balance would have to be withdrawn by the **end of the 10 years after death.**

Note: SECURE 2.0 Act did not address this situation, so it is likely that IRS will keep this rule intact when they issue final regulations.

SECURE ACT: How the Post-Death IRA Rules Work

2023 RMD Rule Update!

IRS Notice 2023-54:

Transitional relief issued by the IRS on **July 14, 2023**, in response to confusion after proposed regulations.

Waives the RMD penalty on missed 2023 inherited retirement RMDs within the 10-year payout rule

2023 Effect: These RMDs do not have to be taken or made up in future years.

Which accounts are NOT affected?

- IRAs and company plan accounts that are paying **lifetime RMDs**.
- IRAs and company plan accounts inherited by **EDBs** who are stretching RMD payments.
- IRAs and company plan accounts inherited **prior to the SECURE Act** (i.e., grandfathered stretch payments).
- Inherited **Roth IRAs**. (Roth IRA owners are deemed to die before their RBD, so no RMDs ever apply in years 1–9 of the 10-year period.)

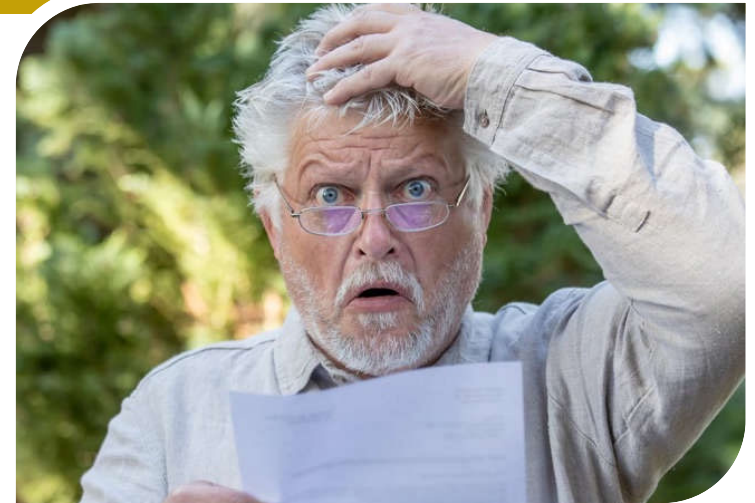
SECURE ACT: How the Post-Death IRA Rules Work

IRS Proposed Regs Issued 2-23-22

**RBD (required beginning date) is an RBD
RBD (really big deal!)**

Example:

IRA owner dies at age 75 (after the RBD), and his beneficiary is his son, age 50. The son is a designated beneficiary and is subject to the 10-year rule but must also take “stretch IRA” RMDs for years 1-9, since death was after the RBD.



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RMDs will be required for years 1-9, and the balance must be withdrawn by the end of the 10-year term!

SECURE ACT: How the Post-Death IRA Rules Work

IRS Proposed Regs Issued 2-23-22

Roth IRA Advantage

Same facts - Roth IRA Example:

Roth IRA owner dies at age 75, and his beneficiary is his son, age 50. The son is a designated beneficiary and is subject to the 10-year rule. **No distributions are required until the end of the 10-year term**, since death was before the RBD, regardless of the age of the deceased Roth IRA owner.

Caution! 5-year rule if no designated Roth beneficiary

All Roth IRA owners are deemed to have died before their RBD, so Roth designated beneficiaries will not have to take RMDs for years 1-9. They can wait until the end of the 10-year term to withdraw the balance in the inherited Roth account. Big Roth IRA advantage!





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2 – SECURE 2.0 Act

Highlights, explanations, and opportunities

Rethinking Retirement Tax Planning for 2023, and Beyond

SECURE 2.0 Act of 2022

Signed into law on
December 29, 2022



~~70.5~~

~~72~~

73

75

Highlights of SECURE 2.0 Act of 2022

Overall observations:

- **No game-changers here.** Nothing transformative like the original SECURE Act
 - SECURE 2.0 is more of a grab bag of items advocated by retirement industry groups to increase opportunities for more people to save for retirement
- **Lots of new provisions to know**
 - There are many different **effective dates** and **limitations** – and **new questions** to expect from clients
 - Many items will not be effective for years and are limited to specific amounts
- **Roth-O-Mania!** More Roth options for IRAs and plans
 - Included as revenue raisers



Highlights of SECURE 2.0 Act of 2022

- Increase in RMD Age to **73** (in 2023), then to **75** (in 2033)
- Which RMD age to use?

Age 72	Born 1950 or earlier
Age 73	Born 1951 – 1959
Age 75	Born 1960 or later

Highlights of SECURE 2.0 Act of 2022

- Reduced the RMD penalty from **50%** to **25%**, and **10%** if timely corrected by making up the missed RMD.



“Timely” means corrected generally in 2 years
(unless the penalty is assessed earlier).
However, IRS penalty waivers on Form 5329 can still be requested.

- **Form 5329 statute of limitations** for RMD penalty (3 years) and excess IRA contributions 6% penalty (6 years, but not for a bargain sale to the IRA)

Highlights of SECURE 2.0 Act of 2022

➤ Eliminated Roth 401(k) RMDs

Beginning in **2024**, Roth 401(k)s will ***no longer be subject to lifetime RMDs.***

Roth IRAs were never subject to lifetime RMDs, and now employer plans will have that same benefit.



Highlights of SECURE 2.0 Act of 2022

➤ Expanded 10% penalty exceptions for early withdrawals

	Limit	Plans	IRAs	Effective Date
Financial emergencies	\$1,000	X	X	2024
Pension linked savings account	\$2,500	x		2024
Domestic abuse	\$10,000	X	X	2024
Terminal illness	Unlimited	X	X	2023
Federally declared natural disasters	\$22,000	X	X	1/26/21
Long-term care	\$2,500	X		3 years after enactment (generally 2026)

Highlights of SECURE 2.0 Act of 2022

- Expanded 10% penalty exceptions for early withdrawals

PUBLIC SAFETY EMPLOYEES

Age 50 exception for early withdrawals from company plans – *will now include more public safety workers*



The law extended the age 50 public safety exception to ***private sector firefighters and corrections officers*** who are employees of state and local governments. It also modified the penalty exception to apply upon the lesser of age 50 ***or 25 years of service.***

Highlights of SECURE 2.0 Act of 2022

- **Increased catch-up contributions for plans**
 - Only for those age 60-63
 - Not effective until 2025
 - Catch-up amount is 150% of 2024 regular catch-up amount (adjusted for inflation)
 - SIMPLE IRA limit is 150% of 2025 regular catch-up amount (adjusted for inflation)
- **\$1,000 IRA catch-up contribution amount (for those age 50 or over) will be indexed for inflation increases**
 - *Beginning in 2024, in \$100 increments*



Highlights of SECURE 2.0 Act of 2022

- **Student loan repayments can qualify for matching 401(k) contributions**
- **Rollovers from 529 plans to Roth IRAs – *limited to \$35,000***
 - Must go to beneficiary's Roth IRA
 - 529 must have been in existence for 15 years
 - 529 contributions made in the last 5 years don't qualify
 - Limited to annual IRA contribution amounts (cannot use the full \$35,000 in one year)



Highlights of SECURE 2.0 Act of 2022

- **Roth-O-Mania! – Expanded Roth options, for IRAs and Plans**
 - SEP and SIMPLE Roth IRAs
 - Matching contributions can go to the Roth 401(k)
 - Plan catch-up contributions must go to Roth 401(k)
 - *if wages from the company for the prior year exceeds \$145,000 (Originally Effective in 2024, but now DELAYED until 2026 – IRS Notice 2023-62)*



Highlights of SECURE 2.0 Act of 2022

➤ QCDs (qualified charitable distributions)

- Annual \$100,000 will be increased for inflation
- One-time \$50,000 QCD allowed for split-interest entities (CRTs, Charitable Gift Annuities, etc.)



Highlights of SECURE 2.0 Act of 2022

- **Auto enrollment in new 401(k) and 403(b) plans –**
(Not effective until 2025)
- **IRA prohibited transaction treatment** – limited only to the IRA account with the prohibited transaction. This confirms prior treatment.
- **Saver's Match** *(Not effective until 2027)*
 - The Retirement Saver's Credit, which was intended to help lower income savers, has been overhauled and will be a government match paid directly to retirement accounts.
 - The match must go to a traditional IRA—*not a Roth IRA*.



Highlights of SECURE 2.0 Act of 2022

- **Special Needs Trusts** –
Applicable Multi-Beneficiary Trusts (AMBTs)
created by the original SECURE Act
 - A qualified charity will be a
designated beneficiary



Highlights of SECURE 2.0 Act of 2022

IRA Annuity Benefits Expanded

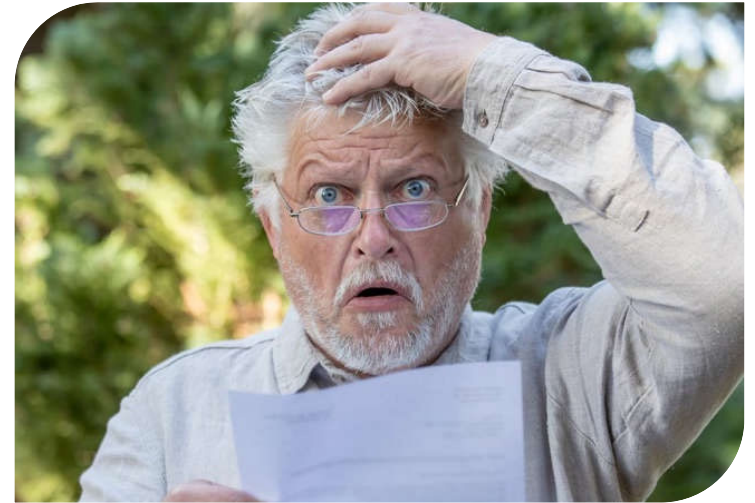
- **QLACs** – Qualified longevity annuity contracts – limit increased to \$200,000, inflation-adjusted, and the 25% test is eliminated
- **Income annuities** within a plan or IRA can now offer additional benefits *without violating any RMD rules*. Benefits and options now allowed:
 - Guaranteed increases (up to 5%)
 - Lump-sum payments
 - Accelerated of payments
 - Return-of-premium death benefits



What's NOT in SECURE 2.0 Act of 2022?

No fix for the 10-year rule problem!

This affects beneficiaries subject to the 10-year rule who must take RMDs for years 1-9 if they inherited from someone who had already begun taking lifetime RMDs (died after their required beginning date – RBD).



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***Note:** IRS still must issue final regulations – but now that Congress chose not to correct or clarify this, it seems more likely that IRS may stick to its position requiring beneficiary RMDs for years 1-9.*

What's NOT in SECURE 2.0 Act of 2022?

- **No effect on “back-door” Roths** – they are still ok to do
- **No income limitations for Roth conversions**
- **No restrictions on IRA investments** in start-ups or privately held stock
- **No change in QCD age** – it is still age 70 ½ (even though RMD age increased to 73, and 75)

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Ed Slott's 3-Year Plan to Capitalize on Inflation & Taxes



Inflation Benefits

Yes, inflation is a problem, *but when it comes to tax planning, it's an opportunity.*

The cost-of-living increases (inflation-adjusted amounts) for 2023 are the **LARGEST IN HISTORY**, expanding tax brackets and other tax benefits.

Key planning point for 2023 – 2025:

More income can now pass through the lower brackets than ever before.

After 2025, tax rates are scheduled to revert back to higher levels!



History of Top Federal Income Tax Rates By Year

1913	7%	1936	79%	1959	91%	1982	50%	2005	35%
1914	7%	1937	79%	1960	91%	1983	50%	2006	35%
1915	7%	1938	79%	1961	91%	1984	50%	2007	35%
1916	15%	1939	79%	1962	91%	1985	50%	2008	35%
1917	67%	1940	79%	1963	91%	1986	50%	2009	35%
1918	77%	1941	81%	1964	77%	1987	38.5%	2010	35%
1919	73%	1942	88%	1965	70%	1988	28%	2011	35%
1920	73%	1943	88%	1966	70%	1989	28%	2012	35%
1921	73%	1944	94%	1967	70%	1990	28%	2013	39.6%
1922	58%	1945	94%	1968	70%	1991	31%	2014	39.6%
1923	58%	1946	91%	1969	70%	1992	31%	2015	39.6%
1924	46%	1947	91%	1970	70%	1993	39.6%	2016	39.6%
1925	25%	1948	91%	1971	70%	1994	39.6%	2017	39.6%
1926	25%	1949	91%	1972	70%	1995	39.6%	2018	37%
1927	25%	1950	91%	1973	70%	1996	39.6%	2019	37%
1928	25%	1951	91%	1974	70%	1997	39.6%	2020	37%
1929	25%	1952	92%	1975	70%	1998	39.6%	2021	37%
1930	25%	1953	92%	1976	70%	1999	39.6%	2022	37%
1931	25%	1954	91%	1977	70%	2000	39.6%	2023	37%
1932	63%	1955	91%	1978	70%	2001	39.1%		
1933	63%	1956	91%	1979	70%	2002	38.6%		
1934	63%	1957	91%	1980	70%	2003	35%		
1935	63%	1958	91%	1981	70%	2004	35%		

Rethinking Retirement Tax Planning for 2023, and Beyond

Taxable Income Brackets for **2023 Ordinary** Income Tax Rates

Marginal Tax Rates	Married Filing Jointly	Single
10%	\$0 – \$22,000	\$0 – \$11,000
12%	\$22,001 – \$89,450	\$11,001 – \$44,725
22%	\$89,451 – \$190,750	\$44,726 – \$95,375
24%	\$190,751 – \$364,200	\$95,376 – \$182,100
32%	\$364,201 – \$462,500	\$182,101 – \$231,250
35%	\$462,501 – \$693,750	\$231,251 – \$578,125
37%*	Over \$693,750	Over \$578,125

* The top rate is effectively 40.8% for those subject to the 3.8% Medicare surtax on net investment income

Rethinking Retirement Tax Planning for 2023, and Beyond

Tax Bracket Increases from 2022 to 2023

Marginal Tax Rates	Married - Joint	Single
10%	\$1,450	\$ 725
12%	\$5,900	\$2,950
22%	\$12,600	\$6,300
24%	\$24,100	\$12,050
32%	\$30,600	\$15,300
35%	\$45,900	\$38,225
37%*	2023 - Over \$693,750	2023 - Over \$578,125

* The top rate is effectively 40.8% for those subject to the 3.8% Medicare surtax on net investment income

RMD Mindset Planning: Think “Maximum,” Not “Minimum”

The “M” in RMD stands for “minimum.” It does not mean “maximum.”

Clients generally focus on what the minimum amount is that they must distribute from their IRAs and other retirement plans. But given our low tax rate environment, expanding even further for 2023, *that’s the wrong way to think about RMDs.*

Using a “minimum” mindset takes control out of your clients’ hands *and turns it over to the government’s schedule!*

Encourage Pre-RMDs (Required Minimum Distributions)

Although RMDs for most clients will have to begin at age 72 (73 in 2023), *why wait until then?*

- Talk with clients who may be years away from when RMDs must begin.
- Distribute some of those funds via Roth conversions, life insurance or for charitable planning.
- **Take advantage of low 2023, 2024 and 2025 rates.**
- **RMDs cannot be converted to Roth IRAs (but Pre-RMDs can!)**



RMD Mindset Planning: Think “Maximum,” Not “Minimum”

3-Year Roth conversion opportunity: 2023 - 2025

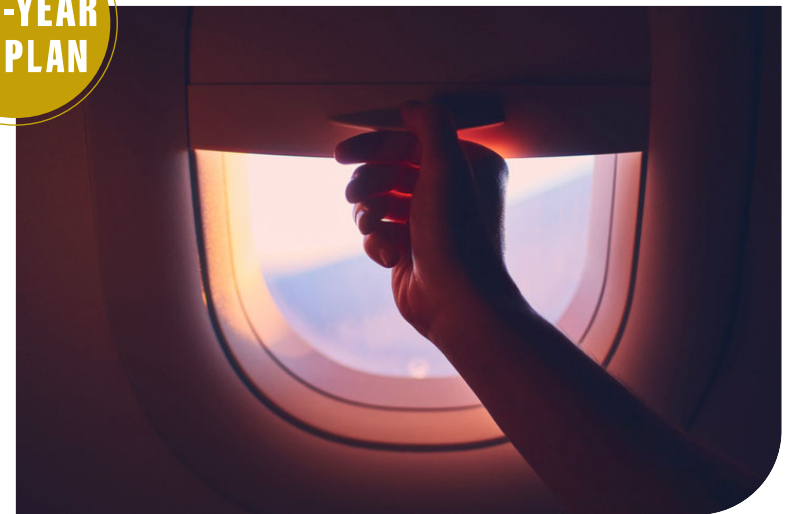
*How much can be converted
at the lowest tax rates?*

The Window is Closing!

The tax law now has a finite window of when most retirement funds must be withdrawn.

Lifetime + 10 years

Tax Danger! Under the SECURE Act, most beneficiaries will have to fully withdraw these funds within 10 years after death. *With these short windows, more retirement assets may be bunched into higher tax brackets, leaving clients with less.*



Show Alternative Planning Solutions

Rethinking Retirement Tax Planning



Roth Conversions
3-Year Plan
To take control of
future taxes



Life Insurance
Moves to the top of
the solutions list,
replacing IRA



**Charitable Tax Planning
with IRAs**
QCDs
(Qualified Charitable Distributions)
CRTs
(Charitable Remainder Trusts)



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3 – Roth IRA Conversion Planning



3-Year Roth conversion opportunity: 2023 - 2025

How much can be converted at the lowest tax rates?

Roth Conversions

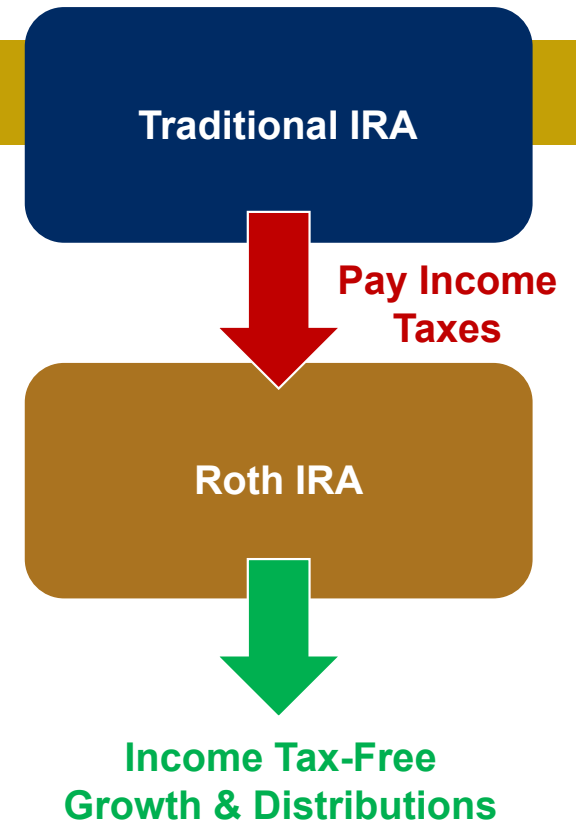
Basic Roth Conversion Concepts

Income taxes will be due on the Roth conversion

- Roth conversions are **permanent**.
- They *cannot* be undone.
- Income tax, at ordinary income tax rates, will be paid on all pre-tax funds converted to the Roth IRA.

Roth IRAs grow *tax-free*

- Once the funds are in the Roth IRA, they will grow *income tax-free* for the life of the Roth IRA owner.
- But Roth IRAs are included in the estate.



Roth Conversions

Basic Roth Conversion Concepts

Roth IRA distributions can be withdrawn **tax-free**

If the Roth IRA funds are held

- For 5 years **AND**
- Until age 59 ½

Then all distributions will be **tax-free**,
including distributions to Roth IRA beneficiaries.

No Lifetime RMDs for Roth IRA owners

- Most non-spouse beneficiaries will be subject to the 10-year payout rule under the SECURE Act.



Rethinking Retirement Tax Planning for 2023, and Beyond

Benefits of a Roth Conversion

▲ Roth IRA distributions can be withdrawn tax-free

- Tax-free income in retirement keeps taxable income low, even if tax rates increase.
- The Roth IRA will compound income tax-free, for beneficiaries, too.

▲ Qualified distributions are tax-free

- Held for 5 years since first Roth conversion or contribution, **AND**
- Age 59½, **OR**
- Disabled, **OR**
- Death (paid to a beneficiary), **OR**
- First-time homebuyer – *Up to a \$10,000 lifetime limit*

Roth Conversion Evaluation

Benefits of a Roth Conversion: *Reasons to Convert*

- ▲ Pay taxes **once**, and ***never again***
- ▲ **Tax Insurance:** A Roth conversion **locks in today's low tax rates**
 - *How much can be converted at the lowest tax rates?*
- ▲ Roth IRAs **remove the uncertainty** of what future tax rates might be.
- ▲ If future tax rates increase, tax-free Roth IRA income will be **more valuable**.



Roth Conversion Evaluation

Benefits of a Roth Conversion: *Reasons to Convert*

- ▲ **Tax risk diversification:** Roth IRAs increase funds that will be free of future taxes
- ▲ **Tax-free income in retirement**
 - Keeps taxable income low, *even if tax rates increase*
 - If future tax rates increase—tax-free Roth IRA funds will be *more valuable*.
- ▲ **RMD Benefit – Roth IRAs have *NO RMDs during lifetime*.**
 - Also, there are no lifetime RMDs for a spouse who moves inherited Roth IRA funds over to his/her own Roth IRA (a spousal rollover).
 - A younger or surviving spouse can extend the time that Roth funds are not subject to RMDs.

Roth Conversion Evaluation

Benefits of a Roth Conversion: *For Beneficiaries*

- ▲ **A Roth conversion is a gift to beneficiaries**
 - paying a tax that they would otherwise have to pay (*possibly at higher future tax rates*)

Update: February 23, 2022

IRS Released SECURE Act RMD Tax Rules

10-year rule: IRS Says RMDs *could be required* for years 1-9, if death is **after** the required beginning date (RBD).

Roth IRA exception - no RMDs for years 1-9, since all Roth IRA owners are deemed to have died before the RBD (regardless of their age at death). However, all inherited Roth funds must still be withdrawn by the end of the 10-year term.



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Roth Conversion Evaluation

Benefits of a Roth Conversion: *Estate Planning Benefits of Roth IRAs*

The SECURE Act eliminated the stretch IRA for most non-spouse beneficiaries
– Including most trusts

Exception: “Eligible Designated Beneficiaries” (EDBs) still get the stretch IRA

▲ Roth IRAs are **a better asset to leave to a trust** when post-death control is needed.

▲ Roth conversions can **avoid high trust taxes for heirs** if a trust is the IRA beneficiary:

- Post-death distributions to the trust are **tax-free**.
- **SECURE Act** – Most trusts will be subject to the 10-year payout rule after death. However, the inherited Roth funds paid out to the trust can be **held and protected in the trust, even after the 10 years**.

2023 Trust Tax Rates

10%	\$0 - \$2,900
24%	\$2,901 - \$10,550
35%	\$10,551 - \$14,450
37%	Over \$14,450

Roth Conversion Evaluation

Drawbacks of Roth Conversions: *Reasons Not to Convert*

- ▼ **Tax must be paid upfront** – this means paying a tax that could otherwise be deferred if no conversion is done.
- ▼ **Roth IRA conversions *cannot be undone*** (recharacterized).
Once the conversion is done, the tax is owed and must be paid.
- ▼ **Legislative Risk** – Can you trust Congress to keep its word? *Of course not!*

Roth Conversion Evaluation

Drawbacks of Roth Conversions: *Reasons Not to Convert*

Side Effects of Roth Conversions

▼ Roth conversions **increase adjusted gross income (AGI)**.

▼ Added Roth conversion income **triggers stealth taxes and loss of tax benefits** that get phased out, including itemized deductions, credits and other tax benefits based on AGI.

 *But that only happens in the year of the Roth conversion.*

- Tax on Social Security
- Medicare Part B and D premiums - IRMAA Charges
- 20% qualified business income deduction
- 3.8% tax on Net Investment Income
- Financial aid eligibility + other education-related tax benefits
- Medical deductions – *must exceed 7.5 of AGI*
- Real estate losses

Roth Conversion Evaluation

Drawbacks of Roth Conversions: *Reasons Not to Convert*

When a Roth conversion might not pay:

Don't convert if the funds **may be needed soon** after the conversion.

- ▶ Roth benefits are better when the Roth funds are **held long-term**, so that all distributions will be tax and penalty-free (qualified distributions).
- ▼ **The 10% early distribution penalty applies** to converted amounts withdrawn in the first 5 years of each conversion (*but only until age 59 ½*).

Roth Conversion Evaluation

Drawbacks of Roth Conversions: *Reasons Not to Convert*

When a Roth conversion might not pay:

- ▶ **Will future tax rates for the client or beneficiary be lower?**
 - Will beneficiaries be in **lower brackets**?
- ▶ **Are there multiple beneficiaries?**
 - The tax brackets can be split, leveraging the lower tax brackets – *even with a 10-year payout period.*
 - **Example:** 3 beneficiaries can spread the income tax over 30 tax returns, using up the lower brackets on each tax return.

Roth Conversion Evaluation

Drawbacks of Roth Conversions: *Reasons Not to Convert*

Tax Deductions Could be Lost

Wasted Tax Deductions

- ▼ Roth conversions will reduce or eliminate the balance in Traditional IRAs, so future deductions, losses or lower brackets might be wasted.
- ▶ **Don't convert if IRA funds may be needed to fund upcoming expenses** (e.g., high medical expenses, business losses, QCDs).
- ▶ RMD income and other taxable IRA distributions can be offset with these deductions.



Roth Conversion Evaluation: Projecting the Tax

What Will a 2023 Roth Conversion Cost?

- **Avoid surprises at tax time next year**

- **Roth conversions cannot be undone!**

The *Tax Cuts and Jobs Act* eliminated Roth conversion recharacterizations – so the tax will be owed.

- **Critical Issue:**

How much will the Roth conversion cost in taxes?

An accurate tax projection will be essential *before* going ahead with any Roth conversion.



Roth Conversion Evaluation

Worst case scenario =
ZERO Percent tax rate

You cannot beat a zero percent tax rate!



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4 – Life Insurance Planning

The Power of Life Insurance

The Power of Life Insurance



While IRAs may be moving to the trash heap for estate planning, life insurance gets bumped up to the top of the list of tools for creating your perfect estate plan.

Life insurance may now be the new stretch IRA.

– Ed Slott, CPA, America's IRA Expert
Author of *The New Retirement Savings Time Bomb*



▲ **Upgrade: Life insurance** moves to the top of the list as an estate and tax planning vehicle for the largest IRAs.

▼ **Downgrade: IRA trusts** will move to the bottom of the list (or possibly become extinct) under the proposed tax rules.

▶ **Life insurance can replace the benefits of the stretch IRA and IRA trusts.**

The Power of Life Insurance

Benefits for the XXL IRAs Under the SECURE Act

▲ More tax efficient

- Life insurance death benefit proceeds are **income tax-free** to beneficiaries
- Life insurance can also be **estate tax-free** – *set up outside the estate*

▲ More flexibility

- Life insurance is a better, more flexible and customizable asset to leave to a trust
- Life insurance can work better for funding trusts for ***special needs beneficiaries***

The Power of Life Insurance

Benefits for the XXL IRAs Under the SECURE Act

Simplicity

- ▲ No RMDs
- ▲ No complex tax rules
 - No rigid stretch IRA trust provisions
 - No IRA custodian issues
- ▲ **No trust tax on the life insurance proceeds paid to the trust**
(earnings on the proceeds though will be taxable)

The Power of Life Insurance

Benefits for IRAs Under the SECURE Act

▲ Life insurance trusts can be *customized* to simulate the stretch IRA over *any payout period desired*

- Trustee can have the power to keep the funds protected in the trust without having to incur a trust tax (other than on annual earnings); *or*
- The trustee can invade the trust for beneficiaries

▲ Life insurance provides leveraged wealth transfer

More funds can go to the eventual beneficiaries and with less tax than if the IRA was left directly to the beneficiaries or to an IRA trust

The Power of Life Insurance

Benefits for the XXL IRAs Under the SECURE Act

Time for an Upgrade!

The old IRA plan won't work anymore for tax-efficient wealth transfer

Change the vehicle! Upgrade to a Limo – *a Life Insurance Limo*

Gain the 3 Big Benefits Every Client Wants:

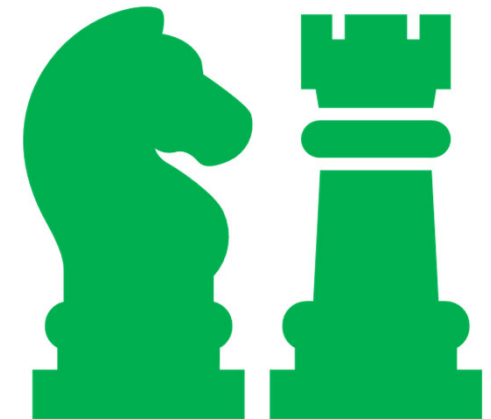
- ▶ Larger Inheritances
- ▶ More Control
- ▶ Less Tax



The Power of Life Insurance

Ed Slott's Life Insurance Replacement Plan

- ✓ **Pay down IRA during lifetime** — *pay tax at current low rates, over a number of years*
- ✓ After-tax funds can be used to purchase life insurance
- ✓ If a trust is needed, the life insurance can be paid to an insurance trust (ILIT)
- ✓ **Reduces current income tax** by eliminating RMDs on IRA funds withdrawn



The Power of Life Insurance

Considerations & Drawbacks

▼ Only for funds specifically earmarked for beneficiaries

This is a long-term strategy that must be committed to – *clients need to understand this*

▼ Limited lifetime access:

This strategy assumes the IRA funds will not be needed during lifetime (which is likely the case for large IRAs); other (non-IRA) funds will need to be available for lifetime use.

- ▶ **However**, policies may provide access to funds via policy loans or enhanced lifetime benefits for healthcare emergencies

▼ Not everyone is insurable

- ▶ **Alternative:** Annuities may provide lifetime, long-term care and death benefits *without underwriting required*

The Power of Life Insurance

3 Big Benefits Every Client Wants

3 Big Benefits Every Client Wants:

- Larger Inheritances
- More Control
- Less Tax



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5 – QCDs / Charitable Tax Planning

Qualified Charitable Distributions (QCDs)

What is a QCD? A direct transfer of IRA funds to a qualifying charity—*the most tax-efficient way to make charitable gifts.*



Pros: IRAs are the best assets to give to charity

Reduces taxable IRA balances at **no tax cost.**

- + Direct transfer to a qualifying charity.
 - + Charity gets the **full amount.**
 - + Client does **not** have to claim as income.

+ Up to \$100,000 per year for each IRA owner (**NOT per account**).

Note: SECURE 2.0 Act Update: Beginning in 2024, the \$100,000 limit will be subject to inflation increases.


Qualified Charitable Distributions (QCDs)

Cons:

- Only available to IRA owners or IRA beneficiaries age 70 ½ or older.
- Not available from company plans.
- Cannot go to a donor-advised fund or private foundation.

SECURE 2.0 Act of 2022 Update:

A one-time QCD of \$50,000 can go to a split-interest entity, such as a charitable remainder annuity trust, charitable remainder unitrust or a charitable gift annuity. But donor-advised funds still do not qualify.



Bottom Line: Focus on your clients that do qualify.



"I can grant your wish for a billion dollars, but you can't wish away filling out an IRS Form W-9."

CartoonStock.com

Qualified Charitable Distributions (QCDs)

The Tax Consequences

- Most people no longer itemize deductions.
- Standard deduction is even larger for those age 65+ (or blind).
- If they don't itemize, clients receive no tax benefit for their charitable donations, **but with QCDs they do**, in the form of an **exclusion from income**.



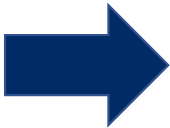
"I don't suppose you remembered the tax-deduction forms that I asked you to bring last year, did you?"

Qualified Charitable Distributions (QCDs)

The Tax Consequences

+ QCDs reduce **Adjusted Gross Income** (AGI), which determines:

- The availability of deductions, tax credits and other allowable benefits.
- The level of taxation on Social Security and Medicare IRMAA surcharges.



NOTE: A QCD for a particular year must be done by December 31 of that year. Many people make their charitable gifts in December, but QCDs should be done earlier in the year so they can offset RMD income. Identify clients who might benefit from QCDs – ***EARLY in the year.***

Qualified Charitable Distributions (QCDs)

QCDs can reduce taxes on RMDs

- QCDs can count towards RMDs, making the RMD **TAX-FREE**.
But once an RMD is paid out, it CANNOT be offset with a future QCD.
(The “First-Dollars-Out” Rule) – January is the new December!

Planning tip for clients with RMDs: Complete the QCD early in the year (before the RMD is paid)

Example: Amy took her 2023 RMD in January.

She now decides to do a QCD to offset the RMD.

It's too late: The RMD is taxable to her.

She can still do a QCD, but it won't satisfy the RMD and will require additional withdrawals.

Qualified Charitable Distributions (QCDs)

The SECURE Act and SECURE 2.0

SECURE and SECURE 2.0 raised the RMD age to 72 (and to 73 in 2023), **but the QCD age remains 70 ½**

- QCDs should still be done, even if there is no RMD income to offset.
- Allows clients to remove IRA funds at a **ZERO tax cost**.
- If they are giving to charity anyway, and they qualify for QCDs, then this is the way they should be doing their giving.

Qualified Charitable Distributions (QCDs)

Other Rules

- Not available from SEP or SIMPLE IRAs unless they are “inactive.”
- Only available from pre-tax funds.

Cannot be taken from nondeductible IRA contributions or after-tax plan rollover funds.

Qualified Charitable Distributions (QCDs)

Other Rules

- Must make a **direct** transfer to the charity.
 - Includes a check made payable to the charity that is sent to the IRA owner and then forwarded to the charity.
- QCD can only go to charities that can receive **ENTIRELY** tax-deductible donations - Plus, a CWA (contemporaneous written acknowledgment) must be timely received
 - IRA owner cannot receive any benefit back (*no "quid pro quo."*)
- Making deductible traditional IRAs at age 70 ½ and over can limit the ability to do tax-free QCDs.
 - Do Roth IRAs instead.

Charitable Remainder Trusts (CRTs)

Charitable Remainder Trusts (CRTs) – Coupled with Life Insurance

Upside:

- ▲ Best for the larger IRAs – *if coupled with life insurance*
- ▲ If your client is charitably inclined, CRTs can simulate the stretch IRA, with yearly payouts to beneficiaries for a term of years or life
- ▲ Tax-free to CRT – *no income tax on the transfer to the CRT*
- ▲ *Estate tax deduction based on time period*

Charitable Remainder Trusts (CRTs)

Charitable Remainder Trusts (CRTs) – Coupled with Life Insurance

Downside:

- ▼ Funds go to charity after the beneficiary dies, but if the beneficiary is in poor health, **funds may go to the charity earlier than planned**
 - *However - the funds can be replaced tax-free with life insurance on the beneficiary*
- ▼ There is **no payout to a successor beneficiary**
- ▼ The longer the beneficiary lives and receives payments from the CRT, the greater the CRT benefit
- ▼ **Won't work for very young beneficiaries;** they won't satisfy charitable requirements when a charity has to wait too long for their money

Charitable Remainder Trusts (CRTs)

Charitable Remainder Trusts (CRTs) – Coupled with Life Insurance

Downside:

- ▼ **No lifetime access for lump-sum payments.** *Beneficiaries won't have access to lump-sums, even for emergencies (only annual distributions), but clients may want that kind of protection*
- ▼ CRTs have **ongoing trust administration costs** – *only worth it for larger IRAs*
- ▼ CRT distributions will be **taxable to the beneficiaries** – *beginning as ordinary income*
- ▼ **CRT payouts are subject to Tier ordering rules** under IRC Section 664(b) “Character of Distributions”:
1) ordinary income; **2)** capital gains; **3)** tax-exempt; **4)** tax-free-return of principal

2023 – Action Steps

Recap:

Rethinking Retirement Tax Planning for 2023, and Beyond

1. SECURE Act Planning – Planning for the end of the stretch IRA
2. SECURE 2.0 Act - Highlights, explanations, and opportunities
3. Roth Conversion Planning
4. Life Insurance Planning – The Power of Life Insurance
5. QCDs / Charitable Tax Planning

2023 – Action Steps

- Identify and contact affected clients to inform them on the tax rule changes eliminating the stretch IRA – *they should hear this from you!*

- Explain the new planning challenges with IRAs after the SECURE Act and SECURE 2.0
 - IRAs are now a poor asset for wealth transfer or estate planning
 - Rethink traditional retirement tax planning with alternative solutions
 - Consider pre-RMD planning using a 3-year plan to take advantage of inflation and low tax rates
 - Think *maximum* rather than minimum IRA distribution planning

- Consider **Roth Conversions** for clients
 - Evaluate the pros and cons
 - Connect and review this with clients' tax advisors



2023 – Action Steps for Advisors

- ❑ Encourage the client to review all IRA and Plan beneficiary forms (especially the **XXL IRAs** where substantial sums will be left to beneficiaries):
 - ❑ Evaluate the post-death tax impact
 - ❑ Evaluate post-death protection and control desired
 - ❑ Check **contingent beneficiaries** to provide post-death flexibility if situations or tax rules change
 - ❑ Explain how life insurance can be used to replace the benefits of the stretch IRA and provide a better estate plan, with larger inheritances, more control and less tax.

- ❑ Advise clients on charitable tax planning strategies using IRAs
 - ❑ **IRAs are the best assets to give to charity**
 - ❑ QCDs – Qualified Charitable Distributions
 - ❑ QCDs can reduce RMD taxes

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Thank You!