June 2020

TRUST CONNECTION

A Monthly Report on Trust News and Information

Inlet Private Wealth & Trust takes the time to learn your financial aspirations, evaluate your personal circumstances and then provide honest, independent advice. Working together we can build a strong foundation by providing solid trustee and investment management solutions that helps protect your wealth and provide peace of mind for the future of your estate.

Inlet Private Wealth was founded and structured to best serve its clients. We believe that effective wealth management is a deeply personal process, one that must be objective, engaged and based on each client's unique goals. Clients deserve tailored solutions, and we work collaboratively with our clients to achieve their unique financial objectives.

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Aligning Tax-Deferred Retirement Accounts with Estate Planning

During the past 30 years, the traditional pension plans that were historically important to the American workforce post-WWII have largely gone away and been replaced by the individual retirement account.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 responsibility for understanding how to plan and prepare for retirement rests on the shoulders of each American and it can be difficult to navigate through a complex subject that changes frequently. With that in mind, it's important to annually review and document changes that have occurred in one's life alongside tax law changes to ensure they work in concert together. Here are some of the primary components for coordinating retirement accounts with one's estate planning efforts.

Unique Planning Opportunities

Retirement accounts are often 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. Because these retirement nest eggs tend to be the largest assets in a person's estate, planning is critical and it's important to consider your retirement fund alongside your 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 to do is ensure you have the assets you need to take care of yourself and your family. It is imperative that you have these after you retire and can manage your medical expenses on a fixed income. Managing finances in retirement can be incredibly stressful, especially when the unexpected happens. Having a trusted advisor to keep you on track with your financial goals and prepare you for the unexpected can be the calming difference that you need.

Next, develop a strategy for distributing any leftover funds upon your 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.

With your Financial Advisor or Estate Planning Advisor, you should consider the following questions related to retirement accounts:

- Who will be the primary and contingent beneficiaries?

- Is there is a compelling reason to name a trust as a beneficiary?

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- What are all 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 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 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 for retirement accounts that have a trust named as beneficiary.

Prior to this new law, when a person with an individual retirement account (IRA) or other tax-deferred retirement account (including a 401(k) or 403(b), whether conventional or Roth) died, the balance in the account could often 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 a 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 your accounts after your 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 you do in response to these SECURE Act changes?

- Review your beneficiary designations and the current balances of your retirement accounts.

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- If your 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.

- Contact your financial adviser to discuss the impact these changes may have on your overall income tax planning.

Planning for retirement can be difficult and it's important to know that your goals, assets, and wishes are aligned with one another. If you are concerned about the state of your retirement account(s), assets and estate plan, schedule a meeting with your trusted financial advisor and your estate planning attorney. With so many of life's most important decisions in play, having a trusted team of professionals ensuring that your desires are planned and documented is paramount for peace of mind.

A LOCAL TRUST SOLUTION

Call us today to learn more about working with Inlet Private Wealth & Trust.
For information and assistance contact us at:

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