

Advanced Planning Sushi: Five Retirement Distribution Hacks

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Speaker 1: Advanced Planning Sushi. Fresh and flavorful sales bites. Five Retirement Distribution Hacks to help make life easier.

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Speaker 1: Thanks for tuning in to another episode of Advanced Planning Sushi. I'm your host, Sarah, and today Advanced Planning's David Szeremet is going to share some simple tips to help clients maximize their retirement income. David, welcome back and thanks for being here.

Speaker 2: Thank you, Sarah. Thanks for having me.

Speaker 1: Sure. So, today's podcast is all about retirement planning hacks. And, David, it seems as though the term hacks is everywhere these days. All you have to do is spend thirty seconds Googling it and I bet you get thousands of hits for articles about various types of life hacks. And today when we say hacks we're referring to simple techniques or strategies to create efficiencies to help make life easier or better. For example, we've probably all heard of cleaning hacks like using an old pillowcase to dust ceiling fan blades. It's simple, quick and it contains the dust.

Speaker 2: I guess it works. That's a hack, Sarah. That's right. Um, well, I mean today, I want to apply the idea of, you know, hacks, simple little twists to the retirement distribution planning space. You know, when you think about retirement plans like 401(k)s, IRAs, and 403(b) plans, just to name a few. There are literally thousands of rules, regulations, and potential tax traps out there. So, in my mind this equates to a huge opportunity to identify some simple tricks. Some simple things we can do to help clients make their retirement lives easier and more tax efficient. So, let's think of them as retirement distribution hacks. You know, when I was preparing for this podcast, in less than one hour just using my memory I identified over twenty hacks in the retirement distribution planning space. But, for today's purposes, I want to focus on just five. And in fifteen minutes or less, we will discuss five hacks that could save your client, you know, thousands and thousands of dollars in needless taxes, penalties, and fees. And today let's focus on distribution hacks, not accumulation hacks. You know, I made this decision based on the calls we receive in the Advanced Planning department, and I would say ninety-five to ninety eight percent of the calls we receive on retirement plans have to do with clients and agents who are stuck in some distribution, you know, corners. They have painted themselves into a corner. So, let's focus on distribution scenarios and that's where I find most often advisors and clients are often on their own. So, it's also though an opportunity to really help people and make a big difference and win more raving fans for your clients.

Speaker 1: Well, we all love that. Alright. So, let's get right into this then. To save time and effort we're just going to generically refer to IRAs today, but many if not all of the hacks we address could apply to many types of qualified retirement accounts like 401(k)s, 403(b)s, and so on.

Speaker 2: That's right. That's a hack. You just saved us some time, Sarah. So, I appreciate it.

Speaker 1: That's right. Alright. So, your first hack deals with the dreaded five-year rule. Tell us where some of the confusion lies here and how you hacked this one.

Speaker 2: Sure. And that's right, Sarah. The five-year rule is still with us and what it says is if properly planning an IRA would need to be distributed within five years of the death of the owner. So, the classic situation here would be if no beneficiary is named or if an estate is the named beneficiary what that would require is the entire IRA account would need to be distributed within five years of the death of the owner. Now, there is this urban legend out there that floating around that the SECURE Act somehow replaced the five-year rule with a ten-year rule and that's not true. So, everyone out there remember the dreaded five-year rule is still out there if your clients have not named a beneficiary or if they have named their estate as beneficiary. You know, it rarely makes sense to name an estate as beneficiary of a retirement account. And really, I couldn't think of a reason while I was preparing my notes. Usually, it is become somebody has procrastinated. Or I'll give you one example. Two days ago, an agent called me, and he told me that the five-year rule didn't apply because the client, although they named their estate the beneficiary of the IRA, they have a trust that will receive the IRA through the probate process allowing the IRA to flow through the trust. And I had to explain that that is not true because they named their estate the beneficiary of the account. So, my hack here is very simple. Work with clients to look at their beneficiary designations and in nearly all cases make sure it's not an estate and also obviously make sure it is not blank. We want to help our clients pick the appropriate beneficiaries and fill out that paperwork.

Speaker 1: Alright. Let's stick with the beneficiary planning for our second hack. In particular, how the SECURE Acts changed multigenerational beneficiary arrangements.

Speaker 2: Sure, Sarah. And I like how you said SECURE Acts, plural because there were two right. We had the SECURE Act, and we had the SECURE Act 2.0. So, lots of legislation in the last couple of years impacting beneficiary IRAs, inherited accounts. And, you know, buy now most advisors understand that the Stretch IRA, which is the ability for a non-spouse beneficiary to stretch a distribution over his or her lifetime was eliminated. It was replaced by a ten-year force out requiring a complete distribution of that account within ten years of the account owner's death with some exceptions and modifications. Now, one modification is that if the beneficiary is a minor child of the owner, you know a so called eligible designated beneficiary, then the ten-year force out clock does not start ticking until the beneficiary reaches the age of majority, which is age eighteen in most states. But, when talking about multigenerational beneficiary

planning for our second hack, we need to understand that this stopping of the clock does not apply to grandchildren. A grandchild is not an eligible designated beneficiary under the SECURE Act. So, remember a child can wait until they reach eighteen in most states to start that ten-year force out, but a grandchild is not eligible unless they qualify elsewhere such as being disabled. So, the bottom line here is, you know, do clients really want to create situations where a minor grandchild is receiving potentially thousands of dollars in IRA distributions? You know, this opens up a whole can of tax and legal slash guardianship issues. So, my hack here is if you really want to pass an IRA to a grandchild or some other individual, you know, multiple generations younger, than, you know, they might use something like a trust or some other guardianship to pass that account, but don't name that grandchild directly. It's probably going to cause all sorts of tax and guardianship problems there. Again, this is a basic beneficiary designation hack. And the client should be urged to work with their estate planning attorney to see what will work best for them. Would it be a trust? Could it potentially be a custodianship or a guardian that they name? It will vary by case, but simply relying on that ten-year exception will not work with grandchildren.

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Speaker 1: Alright. Let's continue with the ten-year rule for the third hack.

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Speaker 1: Right now, this issue might be the most confusing aspect of the ten-year rule under the SECURE Acts. David, please settle the debate. For inherited IRAs during the ten-year force out period, do IRA beneficiaries have to take the annual RMDs or can they delay up until the tenth year, essentially requiring only one distribution?

Speaker 2: So, my answer is it depends. Don't you just love the law?

Speaker 1: Yes.

Speaker 2: Ok. So, most advisors out there realize that the IRS has issued proposed regulations that stated in black and white that if the IRA owner died after his or her beginning date, her required beginning date, than a non-spouse beneficiary must continue taking RMDs at least annually during the ten-year force out period, you know, based on his or her single life expectancy. So, this means if you inherited an account from somebody who was already taking RMDs, then the beneficiary has to continue taking RMDs during the ten-year force out. The rest of it has to be out by December 31st of the tenth year following the death of the owner. Now, if the owner was younger than the required beginning age, so if they died before having to take RMDs, then only one RMD is required of the beneficiary. That being the money has to be out by the end of the tenth year. So, it is very confusing meaning if the owner died after the required beginning date, then RMDs must continue for the beneficiary versus if the owner died before the required beginning date. RMDs can be delayed until the end of the tenth year following death. So, this is a real contradiction. But, you know what, this is what the IRS

put in their proposed regulations. Will the IRS fix this contradiction? Now, here is the late breaking news. Just last week, just recently, with IRS 2023-54, the IRS said that on inherited accounts because of the confusion caused by this contradiction beneficiaries do not have to take the RMD in 2023. So, if somebody you know, is confused. Didn't take an RMD in 2023, then they are fine. The IRS is giving people relief, but this also says that, you know, they expect people to start taking them in 2024. So, a little bit of relief, late breaking relief if you're listening to this in August or any time in 2023. But again, you know, to keep it simple, here's my hack. You know, if you want to smooth out the taxes, one way to take care of this is to take a ten percent distribution from the account every year for ten years following the death of the owner. So, instead of worrying about does the IRS want us to take a distribution, do they not? I think a smoother way to deal with it is take a ten percent distribution for ten years. It will spread out the taxes. Hopefully, it will help smooth out taxes. And clients won't be confused as to whether they do or don't have to take a distribution. You know, my advice here, keep it simple.

Speaker 1: I love that.

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Speaker 1: Alright. So, let's touch on trusts as a beneficiary of an IRA. What tips or tricks can you share here?

Speaker 2: Ok. Well, you know, anyone who has ever reviewed a trust document or even attempted to read one can understand how muddy things can get with retirement plans when they are passing through a trust. And the SECURE Acts did nothing to help this. And in some cases, have actually made this more complicated. You know, let me give you one example. Most trust documents that I review have what I would call generic IRA distribution language in them, which says something to the effect of they want to force a stretch out. So, what it would do is it will often limit the trustee's ability to take distributions to the required minimum distribution. So, they limit it in the trust document to the RMD. Now, under the new rules, we all know now that the Stretch IRA has been eliminated. So, if a trust document limits your distribution power to taking the RMD, it could be interpreted to mean that the trustee is limited to only taking only one lump sum distribution at the end of the tenth year to satisfy the ten-year force out rule. You know, if you want to call it a tax time bomb, it's like a nuclear bomb because they would be taking one lump sum distribution at the end of ten years, which could create a huge tax problem and applying unfavorable rates. So, that is just one example of how these new rules could interplay with some of those trust documents out there and really cause problems. So, my hack is pretty simple. My hack says take advantage of the advanced planning document review service. You know, our department, we have attorneys on staff who are ready, willing and able to review trust documents that your clients may have. It's confidential. It's a complimentary service. And we can help agents out there navigate some of this legalese. You know, we are not the client's attorney so

we can't draft trust documents for them. We can't give legal opinions or advice, but a plain reading of a trust document which shows the trustees' powers are limited to the RMD can be pointed out. And the client should be urged to get with their attorney so they can potentially update that language to comply with the SECURE Acts. I've gotta tell you. A lot of those old trust documents out there are just not in compliance with the SECURE Acts. So, lots of things that need to be done out there. But again, a simple hack is get with our department. We can help you untangle that legalese and help get your clients pointed in the right direction.

Speaker 1: Sounds good. Alright. Let's wrap this up with charitable giving. Many advisors are aware that clients can make direct contributions of the required minimum distributions to charity without it being considered income and without having to itemize and it satisfies their RMD for the year. This qualified charitable distribution seems simple. So, what hack do you have for this one?

Speaker 2: Sure. And on the face they are pretty simple. Like you said, you know, somebody aged seventy and a half or older can make an RMD or a portion of their RMD directly to a charity and it avoids inclusion in income. You know, so it is not considered income. They don't have to itemize, and it satisfies the required minimum distribution for the year. So, that's pretty cool. You know, take care of your RMD, don't have itemize, and you help out a charity. But here is a problem we have been seeing. It only applies to traditional IRAs. That the first thing. So, you know, as an advisor if a client is talking to you about a qualified charitable distribution or QCD. We need to keep our eye on the ball. So, the first hack is remember, these only apply to IRAs, not 401(k)s or 403(b)s, etcetera. And not to Roth IRAs because Roth IRAs have already been taxed and they don't have lifetime RMDs. So, that's my first hack is keep your eye on the prize, which is only traditional taxable IRAs. Also, the second hack. Think about timing. Once an RMD is taken, it can no longer be reclassified as a qualified charitable distribution. So, if somebody is coming to you late in the year. Let's say they took their RMD in January or February and then they heard about this qualified charitable distribution and now they want to do it. Now, it's too late. You already took the RMD. So, my second hack would be think about these qualified charitable distributions being taken earlier in the year. As opposed to waiting late in the year when they would have to try to unwind something when it can't be done. So, think about focusing on IRAs and focusing on earlier in the year. Those two simple hacks can help put the qualified charitable distribution, you know, strategy in play.

Speaker 1: Alright. Well, that is a wrap on the hacks. But, before we go let me point out a few resources that our listeners might be interested in. We have guides on charitable giving for both financial professionals and clients which are forms 2501 and 2502 and various resources on IRA distribution planning and the SECURE Acts all available on our agent website. Or you can always just give the team a call and we'd be happy to send those materials your way.

Speaker 2: That's right, Sarah, and I want the advisors out there to remember, you know, AuguStar is making a very significant commitment to reenergizing and

reengaging the annuity space. You know you're going to see a lot of new products being rolled out, a lot of new services, and remember the advanced planning department is always there to assist with annuity planning whether it's advanced planning concepts such as estate planning, but also on the retirement distribution side which we're talking about today. So, we're really excited in the Advanced Planning department to see this new energy, to see the new products, and really to become an industry leader like we should be.

Speaker 1: That's right. We are excited and, David, thank you so much for your time today. It's been a good chat.

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Speaker 1: And thank you, our listeners, for tuning into another episode of Advanced Planning Sushi. Until next time, good selling.

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