



A 2020 Look at Your IRA

While most of us were enjoying the holidays, our friends in Washington were busy tinkering with traditional individual Retirement Accounts (IRAs).

As you may have heard, Congress passed legislation late last year that changed the rules for traditional IRA's and other defined contribution plans. These changes went into effect on January 1, 2020.

Over the years, there have been many changes to the tax laws affecting retirement, and this one is no different. If you reach age 70 ½ in 2020, you can delay taking your first required minimum distribution (RMD) on your traditional IRAs until April 1 of the year after you turn 72. If you turned 70 ½ in 2019, you will still be required to take your first RMD by April 1, 2020. This may not sound like a big deal, but I can assure you, keeping your money in a tax-deferred account for another 18 months may alter some of the retirement income projections we have created.

The other thing that's changed? You can continue contributing to your Traditional IRA past age 70 ½. There's no requirement to stop contributing as long as you meet the earned income requirement.

Rules Tighten on Stretch IRAs

Washington was also busy making new legislation that affects some of the old rules for traditional individual Retirement Accounts. These changes went into effect on January 1, 2020.

One of the biggest changes will affect the required minimum distribution (RMD) timeline for IRAs granted to a beneficiary at the time of your death.

So, what does this mean for you?

Unless an inherited IRA meets a very specific set of circumstances, non-spousal beneficiary is now required to withdraw the money from the IRA within a period of 10 years.

For example, let's say you have a hypothetical \$1 million IRA. The beneficiary is not required to take a set amount. The requirement is the money must be withdrawn by the end of the 10th year following the year of inheritance. So, if you are leaving your IRA to a 50-year-old child, they must take all the money by the time they reach age 61. In the past, your 50-year-old child could stretch the money over their expected lifetime, or roughly 30 years.

The new limits on IRAs may force account owners to reconsider inheritance strategies and review how the accelerated income may affect a beneficiary's tax situation.

Footnotes, disclosures, and sources:

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