

April 2, 2020

CARES Act wants you to take an RMD Holiday! Strategies to Consider

You can skip the Required Minimum Distribution (RMD) from your retirement accounts, with the newly passed CARES Act in 2020. This applies if you are subject to RMDs that are not part of a defined benefit plan. This rule applies to first time RMDs due April 1 (held over from 2019) and to 2020 RMDs that aren't due until December 31. The RMD reprieve also applies to inherited 401(k)s and inherited IRAs.

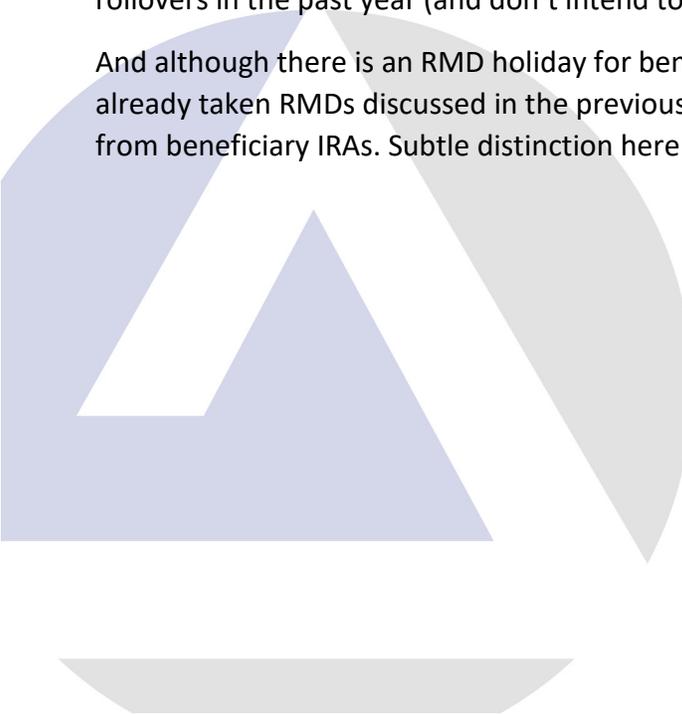
Many clients need their RMDs to live, but it is estimated that about 20% of people do not need their RMDs for current income. If this sounds like you and you have adequate savings to get through this year, reconsider if you want to draw RMDs off accounts that could be down in value (RMDs are calculated on higher December 2019 values).

Maybe you can take the RMD holiday as an opportunity to do some distribution planning. Consider a Roth conversion now that accounts are down *and* RMDs aren't required (driving down the taxable income)? Roth Conversions could also apply for people who find the COVID-19 pandemic has them under-employed and have low expected income for 2020.

If you would like to discuss forgoing RMDs and drawing down your cash reserves until the market bounces back, hopefully later in the year, please let us know.

If you already took your distribution in 2020? Those RMDs can still be put back into an IRA in what is called an indirect rollover, provided you do so within 60 days and haven't made any other indirect rollovers in the past year (and don't intend to do so with any of their IRAs in the next year).

And although there is an RMD holiday for beneficiary IRAs, be careful as these strategies to replace already taken RMDs discussed in the previous paragraph don't seem to apply to RMDs already taken from beneficiary IRAs. Subtle distinction here.



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Action items: Think about RMDs in a strategic way. Perhaps stop the systematic distribution if you do not need those payments. Also consider whether the RMD reprieve allows additional tax planning opportunities, whether through performing Roth conversions or doing distribution planning in some other way? Also consider if you have already taken your RMD and may want to “give it back” to replenish your IRA accounts.

As your financial advisors, we are here to help you navigate these challenging times in your pursuit of financial fulfillment. We are here to help simplify the labyrinth of financial concepts, so you have confidence navigating a complex world. Don't hesitate to call on us for assistance.

Sincerely Yours,

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