

**ADVANCED  
PLANNING****The SECURE Act  
Talk To Clients About Stretch IRA Elimination****THE SECURE ACT**

The Act requires certain beneficiaries to completely withdraw inherited traditional IRAs and tax-qualified retirement plans within 10 years and pay the resulting tax liability. Exceptions (Eligible Designated Beneficiaries) include:

- Surviving spouse (spousal rollover still available)
- Beneficiary not more than 10 years younger
- Disabled/chronically ill beneficiary
- Minor child (not grandchild) of the owner (must switch to 10-year payout once the minor reaches age of majority)

**HOW DOES IT IMPACT BENEFICIARIES?**

Effect of the elimination of “stretch”

- Eliminates a popular legacy planning strategy of deferring distributions and spreading the tax liability of an inherited retirement account over a beneficiary’s lifetime
- Accelerates the tax liability
- May push a beneficiary into a higher tax bracket
- Distributions to a trust could be taxed at the highest federal income tax rate of 37% once the taxable distribution exceeds \$12,950 (2020)

**POTENTIAL CLIENT PROFILES**

- Married clients with IRA and retirement plan assets that are intended to be left to their heirs
- Single clients with children or other individuals designated as beneficiaries of their IRA and retirement plan assets
- Clients that designated trusts as the beneficiaries of their retirement accounts

**THE OPPORTUNITY**

- May encourage retirees to spend more of their retirement savings on themselves
- Reposition traditional IRA assets intended for legacy purposes by using unneeded retirement income to fund a life insurance policy. The death benefit from a life insurance policy is income tax-free, per IRC 101(a)
- Review strategies employing trusts that, with the elimination of the stretch IRA strategy, become “ticking tax bombs”





## CLIENT PROFILE

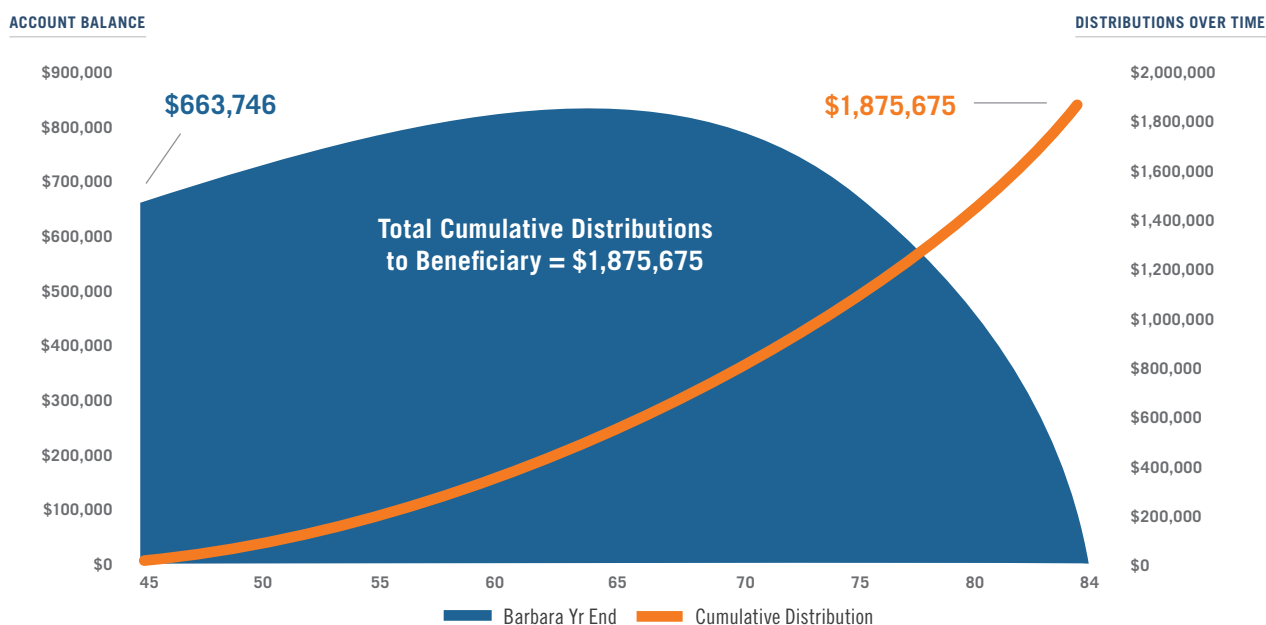
- Don names his daughter, Barbara, as a beneficiary on his \$500,000 IRA
- Don takes RMDs until his death at age 80

## OLD RULES: HYPOTHETICAL STRETCH IRA EXAMPLE

Our hypothetical client, Don, has two IRAs. One is worth \$1 million and the other \$500,000. Don would like to leave the \$500,000 IRA as a legacy asset to his daughter, Barbara, and named her as beneficiary. Assuming he took appropriate required minimum distributions (RMDs) from the account starting at age 70½, he would leave an account worth \$663,000 to Barbara at his death at age 80. Over his lifetime, he would have taken over \$322,000 in RMDs.

Under the previous stretch rules, Barbara, who was 45 in the year her father died, could have “stretched out the account” over 39 years. Over that time period, she could have received distributions totaling \$1,875,675.<sup>1</sup>

## END OF YEAR ACCOUNT BALANCES & CUMULATIVE DISTRIBUTIONS (5% NET GROWTH)



Assumes IRA value at 65 of \$500,000, death at 80, daughter (Barbara) as beneficiary at age 45. Assumes net 5% growth on assets. Assumes death on 12/31.

The original IRA owner takes RMDs beginning at age 70½. Distributions taken at beginning of year.

The illustrations do not take into account the effects of inflation, which will erode the purchasing power of the investment. The rate of return on the underlying investment(s) in the IRA is shown to be constant over the life of the account while, in fact, account values are subject to market risks that cannot be predicted.

This information is hypothetical and not representative of any particular product.

## NEW RULES: HYPOTHETICAL STRETCH IRA EXAMPLE

The SECURE Act changes everything. In this scenario, Don chooses not to revisit his legacy strategy. He'll start RMDs at age 72, not 70½. Upon Don's death (at age 80 and after 12/31/2019), Barbara would inherit the IRA with a value of more than \$715,000.<sup>1</sup> She'll be required to fully withdraw the IRA's assets within 10 years.

(continued)

<sup>1</sup> Before tax.

## NEW RULES: HYPOTHETICAL STRETCH IRA EXAMPLE (CONTINUED)

If Barbara were to take an annual distribution over the ten years, she will have received about \$900,000 in distributions.<sup>2</sup> This full amount is subject to income taxes.

### TALK TO CLIENTS ABOUT THE IMPACT THE SECURE ACT MAY HAVE ON THEIR IRA BENEFICIARIES

If clients don't update the role of IRAs in their overall estate plans, their beneficiaries who inherit traditional IRAs may be subject to:

- An accelerated tax liability
- The potential for increased income tax rates

### MEET WITH CLIENTS

Start actionable client conversations about their tax-qualified retirement plans and the SECURE Act's impact to their estate strategies:

1. Review beneficiary designations
2. Evaluate strategies that draw down taxable IRA assets and provide tax-efficient strategies for the next generation
  - **Strategic Roth Conversions<sup>2</sup>** – reduce overall tax liability by doing a series of Roth conversions over time
  - **Asset Repositioning** – use unneeded, taxable income to create a tax-free legacy for heirs
  - **Charitable Remainder Trust (CRT)** – create a lifetime income for heirs and leave a charitable legacy
  - **IRA Drawdown Strategy** – An alternative for clients who need income from their IRAs
3. Put into practice a new plan to meet clients' needs and wants, to work toward financial wellness

**Prudential is here to help you every step of the way, from resources to help you start the conversation to designing the case. Contact your Wholesaler to get started.**

<sup>2</sup>Conversions to a Roth IRA are generally fully taxable. Before clients convert to a Roth IRA, consider how their tax bracket will affect the overall benefit of the rollover. Conversion income may push them into a higher tax bracket. It is, however, possible to convert only part of their traditional IRA. This could enable them to remain in the same tax bracket they would be in without the conversion.

It is generally advisable to pay the taxes on the conversion with funds other than those in the client's traditional IRA. If clients are under age 59½ when they do a conversion, any funds not deposited in the Roth IRA will be subject to the 10% federal income tax penalty (unless an exception applies).

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