

## Thinking Retirement

# Securing Your Post-Pandemic Financial Future

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The current outlook looks opportunistic relative to reconsidering trusts as IRA beneficiaries. The SECURE Act signed in December 2019 was important. We feel nearly every estate plan needs to be reconsidered, because non-spouse beneficiaries are no longer allowed distributions based upon IRS life expectancies. Rather, a new 10-year rule applies. In addition, if someone inherited an IRA before year-end 2019 or had already begun required minimum distributions (RMDs) from an inherited account, you will need to calculate distributions using Dec. 31, 2019 values.

It is not uncommon for us to help advocate for clients establishing trusts to provide a degree of control over inherited IRA assets, particularly for beneficiaries concerned about spendthrift or less-mature descendants, or in special-needs trust situations. Oftentimes, a planning goal exists to preserve accumulated retirement assets and to stretch tax deferral over a longer time frame. Under new rules, there is a legitimate concern over tax management of distributions and/or trustees waiting until the 10<sup>th</sup> year.

With the pandemic and associated lower interest rates, it becomes important to reevaluate historical equity like return assumptions for retirement income assets. For people resistant to equity market volatility, it seems essential to reconsider risk comfort levels and what we call structured approaches. The risk premium associated with equity investing is likely changed.

With the SECURE Act and pandemic-induced CARES Act, a new planning complication arrived in 2020. The SECURE Act delays the age for taking RMDs from 70 ½ to 72. But what if a person already started taking RMDs and is not age 72 yet? Individuals who were already taking RMDs by Dec. 31, 2019, must continue taking these distributions. Likewise, anyone who turned age 70 ½ by Dec. 31, 2019, must begin taking RMDs by April 1, 2020. However, the CARES Act provided a one-time year 2020 waiver for RMDs. SECURE Act did not change qualified charitable distributions. Account owners age 70 ½ and older may continue to contribute up to \$100k per year directly from their IRA to a public charity and exclude the distribution from their taxable income.

While the SECURE Act brought about significant changes to the retirement landscape, it did not, however, change life expectancy tables. All RMDs will continue to be calculated using the same IRS tables as in the past – at least for the time being.

Also, in 2020, the IRS proposed changes to the tables and



advised these tables could be updated in 2020. At the writing of this, and with the pandemic, we do not anticipate that these tables will arrive for consideration until 2021. We will see.

Certainly, pre-pandemic conventional wisdom was to delay filing Social Security to boost annual income. Filing at F.R.A. (Full Retirement Age) gets you 100% of your earned income benefit. Filing earlier than that age reduced benefits as much as 6.7% annually. Filing at age 62 would only yield 72% of the full benefit amount. This is still a strong argument for delay while still considering tax-efficient distributions associated with tax-deferred savings during retirement years. While we are not market forecasters by any means, in planning retirement income, it's essential to not ignore taxation of distributions. Social Security income can, of course, be subject to taxation. Going forward, pressure seems likely for revenue-seeking purposes to expect greater attention to taxing retirement savings and income. ■

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