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Planning for Qualified Plan and IRA Distributions

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The Congressional Research Service reports that at the end of 2021, the total amount of retirement plan assets in the U.S. was $40.8 trillion. Of this, $16.8 trillion was held by private sector, state, local and federal government defined benefit pension plans. $24 trillion was invested in private sector and government defined contribution individual account plans and IRAs. That is an 87.4% increase in retirement assets from 2012.

In January 2023, the Motley Fool reported that the average 401(k) balance for a person age 65 or older is $279,997. This is only an average. Add IRA savings to that, and then ask: **"Have I adequately planned for the distribution of my retirement savings?"**

It is too easy to focus only on complying with the rules regarding required minimum distributions (RMD). Your planning should encompass not only distributions upon death, but should also include a *lifetime* distribution strategy that is coordinated with your estate plan. The purpose is to provide a comfortable and secure income stream for you and thereafter provide a meaningful benefit for your beneficiaries.

There is no "one size fits all" to planning for your retirement and IRA accounts, and with all due respect to Ron Popiel, you do not want to set it and forget it. The RMD rules and distribution options change (see: *Highlights of SECURE 2.0 Act* and *RMD Relief for Certain Post-Death Distributions*).

So, what should you do?

- At least annually, reflect on your personal circumstances to assess your retirement and IRA accounts in relation to your personal financial situation and to determine whether your named beneficiaries, including any trust beneficiaries, are accurately identified as part of your plan.
- Meet with your financial and estate planning professionals to discuss your situation and answer questions you may have that may impact your decision to stay the course or make changes to address your goals.

What Else?

Some legislative or regulatory changes may be mandatory, but others may provide you with some flexibility. For example, the age to commence RMDs was raised to 72 by Secure Act 1.0 and has now been raised to 73 beginning in 2023 (by Secure Act 2.0). It will increase to 75 beginning in 2033. Remember that this is the *latest* age by which distributions must commence. When you consider that your non-Roth retirement and IRA assets are taxed as both ordinary income and subject to estate tax, you may elect to commence distributions earlier (but not too early!). See *SECURE 2.0 and Exceptions to the Early Distribution Penalty*.

Changes regarding the distribution of Roth accounts may affect your contribution and distribution planning. Prior to Secure Act 2.0, distribution of Roth IRA assets did not have to commence until after the Roth IRA owner's death, but Roth 401(k) assets had to be distributed subject to the RMD rules applicable to other 401(k) assets. Beginning in 2024, Secure Act 2.0 extends the Roth exemption to accounts in employer plans.

Consider also the **distribution options** available to you. Secure Act 2.0 has provisions to encourage IRA and defined contribution plans to provide annuity distribution options so participants will be less likely to outlive their retirement assets. Participants have avoided annuities for fear the entire amount would be lost upon death of the participant.

However, changes permit limited annual increases in payments and certain guaranteed death benefits. Qualified longevity annuity contracts (QLACs) are deferred annuities. The annuity starting date may not be later than age 85. Secure 2.0 raised the dollar limitation for QLAC premiums to $200,000 and removed the percentage limitation on the participant's account balance that may be applied to the QLAC premium. The QLACs may be structured for joint and survivor distribution and QLACs may enable you to segment assets for distribution at various times throughout your retirement.

There are certainly a lot of considerations. For additional information, please contact Nadia Havard, or call us at 814-459-2800.

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Nadia A. Havard concentrates her practice in all areas of qualified and nonqualified retirement plans and employee benefits; transfer taxes; fiduciary income tax and trust administration; business; as well as estate planning and administration. She also helps nonprofits obtain and maintain their tax-exempt status.

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