WAKEMAN LAW GROUP, INC.
Estate, Trust & Tax Attorneys

4500 E. Thousand Oaks Boulevard, Suite 101
Westlake Village, California 91362
(800) 366-1186 · (805) 379-1186 · (818) 889-1296
Fax (805) 379-4975
www.wakemanlaw.com

THE SECURE ACT LIMITS "STRETCH IRAs"

The "Setting Every Community Up for Retirement Enhancement Act" (the SECURE Act) was signed into law on December 20, 2019, and became effective as of January 1, 2020. The SECURE Act makes a number of changes to the rules for retirement plans, including limiting the ability of a Beneficiary of an IRA or other qualified retirement account to create a "stretch IRA."

Under the current laws, the required minimum distribution rules for an inherited IRA allow a designated Beneficiary to receive distributions over his or her life expectancy. Spreading the distributions over the Beneficiary's lifetime may result in a lower annual tax liability while allowing the investments to remain in the tax advantaged IRA with growth potential.

Under the SECURE Act, a Beneficiary who inherits an IRA in 2020 and thereafter must withdraw the funds from the IRA within ten (10) years of the IRA account holder's death. This provision will affect estate planning approaches for IRA owners who leave their IRAs to their children or grandchildren, as well as how Beneficiaries manage the tax implications of their inherited IRAs.

For certain designated Beneficiaries, the ten (10) year rule will not apply and these Beneficiaries can take distributions over their lifetimes. These eligible designated Beneficiaries include:

- Spousal Beneficiaries;
- Disabled Beneficiaries;
- Chronically ill Beneficiaries; and
- Individuals who are not more than ten (10) years younger than the deceased IRA owner.

Certain minor children of the deceased IRA account owner are allowed to defer the ten (10) year distribution requirement until they reach the age of majority (age eighteen (18) in California). Therefore, if a minor child is named as Beneficiary, the account will need to be distributed in full when the Beneficiary attains age twenty-eight (28).

As a result of the changes set forth above, it is recommended that clients review their Beneficiary designations on their IRA and other retirement accounts. These rules apply to traditional IRAs, IRA rollovers, Roth IRAs, and defined contribution retirement plans, such as 401(k)s.