ELDER LAW AND ESTATE PLANNING

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Estate planning options under the new SECURE Act: preliminary thoughts

This is the second of two columns on the new federal SECURE Act, effective Jan. 1, 2020. From an estate planning perspective, its greatest impact is on those who wish to leave an IRA or other qualified plan to a non-spouse beneficiary. The law eliminates a non-spouse beneficiary's ability to "stretch out" an inherited qualified plan using his/her own life expectancy as a basis for withdrawals. Now, all funds must be depleted within 10 years of the prior owner's death.

If you were relying on the "stretch out" to create a lifetime income stream for a non-spouse beneficiary, it's back to the drawing board. Below are some preliminary workaround strategies, but don't hang your hat on any of them just yet: Estate planning and financial professionals are still examining the law, and final federal regulations have yet to be issued.

1. Leave your qualified plan to non-spouse beneficiaries in lower income tax brackets, thus reducing the income tax consequences.

2. Leave your qualified plan to your spouse, who may be able to take payouts for longer than a 10-year period. Your spouse can then leave it to the non-spouse beneficiary. The additional time may allow the non-spouse beneficiary to begin withdrawals after the peak earning years, when he/she may be in a lower tax bracket.

3. Name multiple non-spouse beneficiaries of your qualified plan, thus spreading out the income tax consequences.

4. Take a withdrawal larger than the minimum. Buy life insurance with it. Create a trust to receive the proceeds, naming the non-spouse as beneficiary. The trust may require payments to the beneficiary to be stretched out. Payouts will not be taxable.

5. Convert your traditional IRA to a Roth IRA. Payouts to non-spouse beneficiaries will not be taxed, although you will have no control over how much or when they can withdraw.

As the situation becomes clearer, more information will be posted on our firm website, www.karplaw.com.

Joseph Karp and Jonathan Karp are Florida Elder Law and Estate Planning Attorneys. The Karp Law Firm is located in Palm Beach and St. Lucie counties. It assists clients with wills, trusts, Medicaid and VA benefits planning, special needs planning, asset preservation, probate/trust administration, estate litigation, and probate and elder law mediation.

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