

# SECURE TRANSFER PLANNING



You've worked hard building your retirement. Tough choices were made and you were smart with your finances. You're confident that you'll have enough income to cover your needs and expenses for retirement. So now, you want to have a plan to pass along what you have left to your family, to make sure that they get the most they can from your estate.

But what's the best way to do that? You might be surprised to find out that traditional retirement savings vehicles may not be the most tax efficient wealth transfer tools.

## **How Does The SECURE Act Affect Your Retirement?**

The SECURE Act stands for "Setting Every Community Up for Retirement Enhancement." It includes wide-ranging legislative reform that helps make saving for retirement easier and more accessible to all Americans, but the SECURE Act also modified the distribution options for some non-spouse beneficiaries when they inherit an IRA or qualified retirement plan account. Rather than allowing a beneficiary to take a lifetime distribution of the qualified account after the owner's death, the SECURE Act limits some non-spouse beneficiaries to draw down the account value within 10 years. This could potentially cause a significant income tax increase to the designated beneficiary, depending on the size of the qualified account balance inherited at death.

## **How Do Taxes Affect Your IRA, 401(k) or Employer Retirement Plan?**

When you have pretax retirement assets such as these, you never pay income tax on the money contributed and that money continues to grow inside the asset tax deferred each year. So, when you receive a distribution or take income from that asset, the entire withdrawal or distribution is now subject to income tax.

And unfortunately when your beneficiary inherits that retirement asset, your beneficiary also inherits the tax liability you never paid. And, if the net worth of your estate at death causes an estate tax liability, your estate could pay tax as well on the value of that retirement asset.

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## Advantages of SECURE Transfer Planning

- You control the size of distributions, which may help you control your tax bracket
- It can help reduce the amount of your estate that is subject to estate taxes
- You can utilize the \$19,000 per year annual gift tax exclusion (2025 indexed amount)
- Death benefit will be free of estate taxes if a third party or irrevocable trust owns life insurance<sup>1</sup>
- Death benefit passes income tax-free to your beneficiaries
- Serves as a liquidity source to help pay estate taxes
- SECURE Act - no reason to worry about the 10 year distribution requirement for your non-spouse beneficiaries when you inherit the death benefit from life insurance versus inheriting an IRA account



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<sup>1</sup> Consult with an experienced estate planner and your tax advisor to structure an irrevocable trust.

Consult with a professional tax and/or legal advisor before taking any action that may have tax or legal consequences.

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