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It's Your Estate Workshop — Hcm2023
Retirement Asset Planning

- I. What are Individual Retirement Accounts (“IRAs”)?
- A. Accounts with income tax advantages to encourage individuals to save for retirement.
 - B. IRAs v. Roth IRAs.
 - C. IRA Tax Deduction Income Limits for 2023.
 - 1) Single and IRA owner participates in retirement plan at work – No deduction if income more than \$83,000.
 - 2) Single and IRA owner does not participate in retirement plan at work – Full deduction without income limit.
 - 3) Married and IRA owner participates in retirement plan at work – No deduction if income more than \$136,000.
 - 4) Married and IRA owner does not participate in retirement plan at work and spouse does not participate in retirement plan at work – Full deduction without income limit.
 - 5) Married and IRA owner does not participate in retirement plan at work and spouse does participate in retirement plan at work – No deduction if income more than \$228,000.
 - D. Roth IRA Income Limits for 2023.
 - 1) Single – Not eligible to contribute if income is more than \$153,000. Partial contribution possible if income is between \$138,000 and \$153,000.
 - 2) Married – Not eligible to contribute if income is more than \$228,000. Partial contribution possible if income is between \$218,000 and \$228,000.
 - E. Maximum contribution is \$6,500 in 2023. Catch-Up Contribution of \$1,000 for individuals who are age 50 or over for both IRAs and Roth IRAs and amounts indexed for inflation under SECURE Act 2.0.
 - F. No age limitation on contributing to an IRA or Roth IRA; must have earned income.
- II. What are 401(k), 403(b), and 457 Plans?
- A. Accounts with income tax advantages to encourage employees to save for retirement.
 - B. Generally referred to as “Qualified Plans.”
 - C. Maximum contribution is \$22,500 in 2023. Catch-Up Contributions of \$7,500 for individuals who are age 50 or over.
- III. What are the tax consequences of withdrawing from a retirement account?
- A. Unless there is an exception, withdrawals before age 59½ are subject to a 12.5% (10% Fed and 2.5% CA) early withdrawal penalty in addition to income tax.
 - B. After age 59½ but before age 73, withdrawals are subject to ordinary income tax.

- C. After age 73, a required minimum distribution (“RMD”) is required, and the withdrawal is subject to ordinary income tax.
 - 1) If more than one IRA, the RMD must be calculated separately for each IRA, but the RMD can be taken out of one IRA.

- IV. What are RMDs?
 - A. Minimum amount that must be withdrawn from a retirement account beginning at age 73 in 2023. The age will increase to 75 in 2033 under SECURE Act 2.0.
 - B. RMDs are calculated by dividing the prior December 31st balance of that retirement account by a life expectancy factor that IRS publishes. (See IRS Publication 590-B)
 - C. Annual distribution must be taken prior to December 31.
 - D. There is a 25% penalty if RMDs are not taken.

- V. What is a Qualified Charitable Distribution (“QCD”)?
 - A. The QCD rules allow a taxpayer to distribute money from his/her IRA and gift it directly to charity, charitable remainder trust (CRT), and/or charitable gift annuity (CGA) without including the IRA distribution in his/her income.
 - B. Must be older than 70½, and distribution is limited to \$100,000 directly to charity.
 - C. Must be older than 70½, and distribution is limited to \$50,000 directly to CRT or CGA.
 - D. Amounts indexed for inflation under SECURE Act 2.0.
 - E. The QCD can be all or part of a RMD.
 - F. No charitable income tax deduction given because QCD is not part of income.

- VI. What is Income in Respect of a Decedent (“IRD”)?
 - A. Income earned by a decedent for which income tax has never been paid.
 - B. IRAs and Qualified Plans all have IRD. At a person or employee’s death, the beneficiary is responsible for the unpaid income tax upon withdrawal.

- VII. What are the tax ramifications of an IRA and/or Qualified Plan at death?
 - A. Income Tax Paid by Beneficiaries - Top Rate of 37% for incomes over \$578,125 for individuals and \$693,750 for married couples in 2023.
 - B. Estate Tax - Top Rate of 40% for estates over \$12,920,000 in 2023.

- VIII. Are the options for distributions from IRAs and Qualified Plans at death?
 - A. Many options with an IRA.
 - B. Limited options with a Qualified Plan. It depends on the terms of the Qualified Plan.

- IX. What is a Rollover IRA?
 - A. The solution to avoid immediate income taxable distributions from a Qualified Plan.
 - 1) Flexibility in investment options.
 - 2) Flexibility in distributions to beneficiaries.
 - B. Consider a “rollover” of your Qualified Plan to Rollover IRA at retirement.
 - 1) Some Qualified Plans do allow “rollovers” to Rollover IRAs after the death of the employee and some Qualified Plans do not.
 - 2) Take action to give your beneficiaries more flexibility in planning.

- X. What are the rules for post-death IRA, Roth IRA, and Qualified Plan distributions?
 - A. Retirement accounts must be distributed within 10 years of the death of the account owner.

- B. Exceptions to this rule include:
 - 1) Surviving Spouse.
 - 2) Child of the account owners who has not reached the age of majority.
 - 3) Disabled or chronically ill beneficiary.
 - 4) Beneficiary who is not more than 10 years younger than the account owner.

- XI. Who should be designated as beneficiaries for IRAs and Qualified Plans?
 - A. To maximize income tax deferral, name your spouse as the primary beneficiary and name your children as contingent beneficiaries.
 - B. Naming your revocable trust as a contingent beneficiary “in separate shares” is an option if you have financial immature or minor children and the appropriate provisions in your revocable trust.
 - C. A charity, charitable remainder trust (CRT), and/or charitable gift annuity (CGA) can also be named as a beneficiary.

- XII. In what scenarios should a revocable trust be named as a beneficiary for IRAs and Qualified Plans?
 - A. Minor children and/or financially immature children.
 - B. Blended families.
 - C. Protecting IRAs and Qualified Plans from creditors.
 - D. Beneficiaries with special needs.

- XIII. What are the two (2) common types of trusts that can be beneficiaries of IRAs and Qualified Plans?
 - A. Conduit Trust.
 - B. Accumulation Trust.

- XIV. What is a Conduit Trust?
 - A. Under a Conduit Trust, the IRA and the trust are two different entities.
 - B. The trust “owns” the IRA. The trustee withdraws the RMD from the IRA, and the RMD must be paid out to the individual who is the beneficiary of the trust.
 - C. Beneficiaries should be named in the trust and on the IRA beneficiary designation form.

- XV. What is an Accumulation Trust?
 - A. Under an Accumulation Trust, the trustee has the power to hold and accumulate the IRA distributions inside the trust.
 - B. There may be higher income taxes to pay on distributions because the threshold for the top trust income tax bracket for a trust is much lower than the threshold for the top income tax bracket for an individual.

- XVI. What are the common mistakes to avoid when naming beneficiaries for IRAs, Roth IRAs, and Qualified Plans?
 - A. Not naming a primary beneficiary or contingent beneficiary.
 - B. Not updating beneficiaries after marriage, divorce, birth of child, etc.
 - C. Naming “my estate” as a beneficiary.
 - D. Naming a beneficiary who is a minor or financially immature.
 - E. Not keeping records of beneficiaries.
 - F. Not considering the income tax issues when selecting beneficiaries.