KOTYS WEALTH PROFESSIONALS

SECURE Act 2.0 – How your RMDs are affected

Each year our firm spends the 4th quarter analyzing clients' financial plans to compute current year income, where the household will fall from a federal tax perspective, how much additional income a household could absorb before jumping into the next tax bracket, and how current and future Required Minimum Distributions (RMDs) could be affected by Roth Conversions. But Congress just threw us a last-minute curveball for 2022.

Before we dive into what's changing in 2023 and beyond, let's go back to December 2019. Similar to 2022, a bill focused on retirement was lumped into the annual spending bill which became known as the SECURE Act (Setting Every Community Up for Retirement Enhancement). While not the most significant portion of the bill, a notable change was that RMDs would be pushed from the year someone turns 70.5 to the year they turn 72. Almost immediately after the bill was passed, pundits wanted it to be pushed further. Industry thought leaders and Congress themselves began to throw out age 75 as the future date.

As a result of those discussions, SECURE Act 2.0 was drafted. Here is the breakdown of the RMD changes in the recent bill:

- If you turned 72 before 1/1/2023, there are no changes for you. Your RMD has begun and continues as is.
- Starting in 2023, the new RMD beginning age will be 73. Meaning if you had not yet turned 72 as of 12/31/2022, your RMD will be pushed back to at least 73.
- Starting in 2033, the new RMD beginning age will be 75. This will affect those born in 1960 or later.

While the end goal was always to push RMDs to 75, the ten-year delay is all about the Benjamins. Consider that over $35 Trillion dollars sit in retirement accounts (as of 12/31/2020 per planadvisor.com). The majority of those funds have never been taxed and RMDs are a way to generate tax revenue for the Federal Government. Pushing it to age 75 immediately would allow millions of Baby-Boomers to continue delaying RMDs for several more years.

So, this offers us another opportunity for analysis and strategy for those who thought they would begin RMDs in 2023. Does it make sense to convert additional dollars into Roth in 2023 before RMDs begin? Is there an anticipated larger distribution for vehicles, cars, weddings, condo down payment, etc. where it would make sense to delay the first RMD until April 1st, 2025? With the Tax Cuts and Jobs Act expected to sunset after 2025, does it make sense to be even more aggressive in the current tax brackets assuming we revert back to the 2018 tax brackets in 2026?

All these questions we can address through our year-end financial planning process. Please reach out to us 219-465-6924 or through the contact us page on our website: https://kotyswealthpro.com/become-a-client/

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