Bennett Associates Wealth Management

2024 Q4

Happy Fall!

4TH QUARTER DATES TO REMEMBER:

FAFSA 2025-26 Opens (limited availability)	OCT 1
Medicare Open Enrollment Begins	OCT 15
2023 Individual Tax Extension Due Date	OCT 15
Veteran's Day	NOV 11
Thanksgiving Day **(markets closed)**	NOV 28
Markets close at 1:00	NOV 29
FAFSA 2025-26 Opens (full availability)	DEC 1
Medicare Open Enrollment Closes	DEC 7
Christmas Day **(markets closed)**	DEC 25
Last Day for Tax Deductible Charitable Contribution	DEC 31
Last Day for 401(k) Contributions	DEC 31
Last Day to Sell Stock to Realize Gains/Losses	DEC 31
Last Day to Take Required Minimum Distributions	DEC 31

These newsletter articles are authored and brought to you by

Bennett Associates Wealth Management.

Understanding Required Minimum Distributions

At some point in your life, you have probably put money into a tax-deferred retirement account - maybe in an IRA or even a workplace retirement account such as a 401(k), 403 (b) or 457(b). Once you attain a certain age, the IRS requires that you withdraw at least a minimum amount, called a required minimum distribution (RMD). It is the smallest amount you must withdraw from your tax-deferred retirement account(s) each year.

In the past, savers were forced to withdraw money from their IRAs starting at age 70 ½ whether they wanted to or not. The Setting Every Community Up for Retirement Enhancement (SECURE) Act has now increased the age you start taking forced distributions all the way to age 75 depending on your current age. Anyone currently subject to and taking RMDs must continue their existing schedule. If you were born in 1951-59 your required withdrawals start when you turn 73. Those born in 1960 or later will not be subject to RMDs until age 75.

Also in the past, failure to take a prescribed RMD resulted in a 50% penalty for the amount that was under-distributed. That has been reduced to 25%, with a 3-year look-back, and further reduced to only 10% if you correct the error in a timely fashion. To avoid mistakes in the calculation of RMDs that could potentially subject you to these penalties, it is a good idea to consolidate accounts when possible, keeping all your retirement accounts in one location. Doing so can help prevent overlooking an account that needs to be part of your overall RMD amount. It also allows you and your financial planner to better strategize which account is most appropriate for making the withdrawals.

As a reminder, RMDs do not apply to anything held in a Roth form of an IRA, 401(k), 403 (b) or 457(b). Although this later required distribution age can allow more time for potential tax-deferred growth of your money, a larger IRA means larger RMDs in the future. This can have tax consequences when it's time to start drawing down those retirement assets. With that in mind, you should work with your financial planner to determine if conversion from a tax-deferred retirement account to a Roth account now and over time is a tax efficient strategy to lowering your forced distributions in the future.

Questions & Answers ...

Q: I'm currently on Medicare but thinking about going back to work where I am eligible for an employer health plan with 20+ employees. Can I suspend my Medicare and re-enroll at a later date?

A: Yes, but if you took advantage of Medigap guaranteed issue when you enrolled in Part B, you may not be able to get a Medigap policy without underwriting as that is a one-time opportunity.

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We're on the web!
BennettAWM.com

It All Begins With a Plan!

Our Services …

Retirement Planning

- *Retirement Goal Setting*
- *Cash Flow Analysis*
- *RMD and Withdrawal Strategies*
- *Roth Conversions*
- *Social Security and Pension Analysis*

Investment Planning

- *Asset Allocation*
- *Withdrawal Strategies*
- *Account Consolidation*

Tax Planning

- *Tax Sensitive Investing*
- *Review of Realized and Unrealized Gains*
- *Tax Loss Harvesting*
- *Roth Conversion Opportunities*
- *Tax Return Review*

Trust & Estate Planning

- *Minimize Estate Taxes*
- *Analyze Trust Needs*
- *Analyze stepped up cost-basis for highly appreciated assets*

Assistance to Others

- *Charitable giving through Qualified Charitable Distributions (QCDs)*
- *Charitable giving of appreciated assets*
- *529 College Saving Plans*
- *Donor-Advised Funds*

Caution: Changes Effecting Upcoming Medicare Open Enrollment

Medicare fall open enrollment begins on October 15th, so your plan documents will be arriving over the next few weeks with an explanation of changes occurring in the new year. Now more than ever, you need to pay special attention to whether you should continue your existing plan or look to make a change. Due to lower out-of-pocket prescription drug spending that was enacted by the Inflation Reduction Act, insurers may try to make up for the resulting hits to their bottom line. This could take the form of higher premiums, higher copayments, drug formulary changes, or narrower provider networks and/or cutbacks in optional covered services (such as dental) for Medicare Advantage plans.

Make sure your plan meets your needs based on the drugs you are taking. The overall generosity (or lack thereof) within a particular drug plan is difficult to assess. Some plans may waive the annual deductible in lieu of higher premiums, while others simply charge more for the premiums. Some plans may offer exceptional coverage for generic drugs but make up for it by reducing coverage for higher priced drugs. A simple way to analyze drug plans is to use the Medicare Plan Finder and look at the out-of-pocket costs. Go to medicare.gov, click on "Find Health and Drug Plans" and follow the prompts. You will need to enter the drugs and dosages you take, then the tools will show a selection of plans and the out-of-pocket costs for each based on your zip code and drug regimen.

If you want to keep your same plan, you don't need to do anything. If, however, you want to make a change, you can sign up for a new plan anytime between October 15 and December 7 directly through the insurance company, through a licensed agent or through Medicare. Once you are signed up for a new plan, Medicare will take care of dropping your former plan.

Clarity on the SECURE Act 10-Year Rule

The 2019 SECURE (Setting Every Community Up for Retirement Enhancement) Act was a major overhaul for retirement accounts. One sweeping change was how a non-spouse who inherits an IRA must distribute RMDs. Under the former law, non-spouse beneficiaries were, in some cases, allowed to "stretch" taxable RMDs over the span of their own life expectancies, which could be a few years, or a few decades. The amount of the distribution was calculated based on a few factors, including life expectancy and beneficiary age.

The SECURE Act enacted a "10-year rule" that requires non designated beneficiaries (meaning most non-spouse inherited accounts with a few exceptions) to empty those accounts within a decade of the original owner's death. It was originally believed that under the SECURE Act, there would be no RMDs for 9 years regardless of whether the original owner was taking RMDs or not. However, in 2022, the IRS proposed a rule that stated that most non-spouse beneficiaries who inherited an IRA from a decedent already subject to RMDs would be subject to their own RMDs and be required to empty the accounts in 10 years, which has led to a lot of confusion. Congress and the IRS were not on the same page—go figure.

Last month, 4.5 years after passing the original SECURE Act, the IRS issued final regulations on the 10-year rule. Starting 01/01/2020, if the descendant was subject to RMDs when they passed, most non-spouse beneficiaries are required to take RMDs each year and to empty the account in 10 years. Because the rule is just now finalized, the IRS waived the RMD requirement for 2021-2024. But starting in 2025, those accounts will be subject to RMDs and still have to be emptied based on the original 10-year time frame. If the descendant was not taking RMDs when they passed away, then most non-spouse beneficiaries are not required to take an RMD each year but are required to empty the account in 10 years.

It is important to note that just because you are not required to withdraw from the accounts doesn't mean that you shouldn't. It depends on your specific planning and tax situation. There are some exceptions for non-spouse beneficiaries and also many other rule changes in these regulations (260 pages worth just in the final regulations) so check with your advisor and tax preparer for how these might impact you.