



BOB CARLSON'S

Retirement Watch  
SPOTLIGHT SERIES

# 20+ Things You Should Know About IRAs and 401(k)s: How to reduce the mortgage on your accounts



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# 5 Stages of an IRA's Life

- **Accumulation**
- **Rollovers**
- **Voluntary distributions (> age 59½)**
- **Forced distributions (RMDs)**
- **Estate planning/inheritance**



# **The Required Minimum Distribution (RMD) Upheaval**

- **Changes in RMD beginning age**
- **72 before 2023: no change**
- **72 in 2023 or later: 73 is beginning age**
- **74 after 2032: 75 is beginning age**
- **73 if born 1951 through 1959**
- **75 if born 1960 or later**



# The RMD Tax Trap

- **% distributed increases annually**
- **Higher tax bracket**
- **Stealth Taxes**
- **Tax burdens on beneficiaries**
- **Tax trap for those with who don't need RMD amounts**



# Key RMD Rules and Strategies

- **First year: take before required**
- **Best time of year to take RMDs**
- **Aggregate IRAs, but not 401(k)s**
- **Can take non-cash distributions**
- **Qualified charitable distributions (QCDs)**
- **Qualified longevity annuities (QLACs)**



# Heirs Pay Too Much Tax

- **The Stretch IRA is gone**
- **Most beneficiaries aren't prepared**
- **10-year distribution rule applies to most**
- **Income taxes accelerated, bunched**
- **Applies to Traditional and Roth accounts**
- **Tougher rules for trusts**



# Estate Planning for IRAs

- **Reduces three problems**
- **Prevents waste, misuse of inheritance**
- **Set up equivalent of Stretch IRA**
- **First: check beneficiary designations**



# Empty IRA Early

- **Original RMD, estate planning strategy**
- **Breaks tax planning rule #1**
- **Prepay the mortgage on your IRA**
- **Can reduce lifetime income taxes**
- **Provides tax-free gift to heirs**





# Convert Traditional to Roth

- **Create stream of tax-free income**
- **Eliminate owners' lifetime RMDs**
- **Tax-free to heirs**
- **SECURE Act 10-year rule applies to heirs**
- **Convert any amount you want**
- **Serial conversions, multi-year planning**



# Conversion Factors to Consider

- **Expect higher future taxes, Stealth Taxes**
- **Market decline**
- **Investment rate of return**
- **Length of time before distributions**
- **Source of tax payments**
- **Plan to leave to heirs**
- **Check state taxes**



# Reposition as Life Insurance

- **Primarily to leave a legacy**
- **Benefit amount to heirs is guaranteed**
- **Receipt of benefit is tax free**
- **After-tax inheritance likely is higher**
- **Might have lifetime access to cash value**
- **One transaction or a period of years**



# Reposition as Charitable Gift

- **Can be a trust or charitable gift annuity**
- **Can take effect during life or after**
- **Possible tax deduction**
- **Fixed lifetime income to you or heirs**
- **Benefits similar to Stretch IRA**
- **A lot of flexibility, follow IRS rules**



# The Key Rollover Decision

- **Most frequent IRA transactions**
- **Should you roll over?**
- **Compare expenses of 401(k) and IRA**
- **Compare investment options**
- **Rules on distributions, changing funds**
- **Communications**



# Do The Rollover Right

- **The 60-day rollover traps**
  - **Roll over same property**
  - **20% withholding**
  - **Once every 12 months per taxpayer**
  - **Limited waiver of 60-day deadline**
- **Best to use custodian-to-custodian**



# The Roth IRA 5-Year Rules

- **Two separate rules:**
  - **10% penalty and income taxes**
- **10% penalty applies only if  $< 59\frac{1}{2}$**
- **For income taxes:**
  - **Any Roth IRA open at least 5 years**
  - **Basis distributed first**
  - **Gains and income then distributed**



# 4 Questions You Need to Ask

- **Is account for life planning or estate planning?**
- **How is the tax burden likely to change in the future on you and heirs?**
- **How long will assets stay in the IRA?**
- **Do you want to protect the assets?**