



## **Financial Planning for Retirement and Gifting to Your Favorite Non-Profit What You Need to Know**

The CARES Act and legislation passed at the end of 2019, the Setting Up Every Community for Retirement Enhancement Act, known as the SECURE Act, made several changes to the law which were designed to increase access to retirement accounts and prevent older Americans from outliving their assets.



We are pleased to provide you with detailed information from **Jeffrey Yoakum, Wealth Manager, Principal and Owner of Yoakum Wealth Management**. The Setting Every Community Up for Retirement Enhancement Act, otherwise known as the SECURE Act, was signed into law on Dec. 20, 2019. It was the first significant retirement-related legislation enacted in a decade. Since then, the coronavirus pandemic led to even more changes being enacted through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed in late March of 2020.

Elements of both acts will affect your retirement planning and how you use the funds over time, such as gifting to the Foothill-De Anza Foundation. In general, most of the changes are taxpayer-friendly, helping increase access to retirement accounts and preventing older Americans from outliving their assets.

### **How has the law changed the rules regarding when I take my Required Minimum Distribution?**

Required minimum distributions, known as RMDs, are mandatory withdrawals from traditional IRAs and employer-tax deferred accounts, like 401(k), 403(b), and 457 accounts. The SECURE Act increased the RMD age from 70 ½ to 72. However, this increase in the RMD age only applies to those who will turn 70 ½ in 2020 or later. If you were born before July 1, 1949 (turned 70 ½ in 2019), you still need to take your RMD for 2019 by April 1, 2020.

The CARES Act suspended RMDs for 2020. This includes RMDs from IRAs, inherited IRAs, and employer -tax deferred accounts like 401(k) accounts. This change provides you with more flexibility in taking distributions and gives retirement accounts a chance to recover from the volatility of the markets during the COVID-19 crisis, especially that experienced during February and March.

### **Are IRA Contributions Allowed after age 70 ½?**

If you want to work into your 70's and still save money for your retirement, there's great news. As of 2020, you can contribute to your traditional IRA in the year you turn 70 ½ and going forward, provided that you have earned income. If you are over the age of 70½ you still cannot make prior-year traditional IRA contributions. Depending upon your income level, you may be able to contribute to a Roth IRA, with no age restrictions.

## Can I make early withdrawal of retirement funds?

If you need to take an early withdrawal from your retirement accounts due to coronavirus hardship, the 10% penalty will be waived on distributions up to \$100,000. This is retroactive to January 1 2020. It's important to note that **withdrawals will be taxed**; however, that tax is spread over three years.

To qualify for early withdrawal without penalty, you must have been diagnosed or tested positive for Covid-19 or SARS-CoV-2; have a spouse or dependent who was diagnosed with either of those diseases; or experienced financial hardship due to being quarantined, laid off, furloughed or having work hours reduced.

## Is it possible to take a loan from a 401(k)?

If you have a 401(k) account, you have always been able to borrow against it, up to 50% or \$50,000, whichever is less. The CARES Act expanded this loan option to 100% of your account balance or \$100,000, whichever is less. If you already have taken out a loan against your 401(k), payments are suspended in 2020.

## What happened to the "Stretch" IRA?

Prior to the passage of the SECURE Act, a non-spouse beneficiary of an IRA or defined contribution plan such as a 401(k) or 403(b) plan, could "stretch" RMDs over their lifetime, keeping it tax deferred and letting it grow for decades.

The SECURE Act requires that non-spouse beneficiaries receive distributions within 10 years. There are exceptions though. Disabled or chronically ill individuals and minor children are omitted from this new rule. If you were already taking distributions from an inherited IRA you could continue to use the stretch IRA technique.

Donors with large IRAS may consider using a testamentary charitable remainder trust as a replacement for the now defunct stretch IRA. For donors with large IRAS or other qualified retirement plans like a 401(k) or 403(b) plan, the donor can provide lifetime income for their heirs and then provide a generous gift to charity while avoiding payment of income taxes on the IRA funds.

For more information on how to give through your estate planning, please contact the Foundation. Or if you have made plans for Foothill-De Anza, then consider joining the **Legacy Circle** so we may recognize your generous commitment to our students!

