LEGISLATIVE UNCERTAINTY MAY CREATE IRA PLANNING OPPORTUNITIES

The recently proposed Build Back Better (BBB) framework did not include all of the changes to Individual Retirement Accounts (IRAs) that earlier versions did. Of course, this could change again. Given the uncertainty, should clients continue to plan for change?

The revenue-generating section of the BBB framework ultimately included some meaningful changes to IRAs and qualified accounts. Those with high incomes and/or large account balances should be on watch as the proposed legislation moves forward, since these two new surtaxes may impact them. Good to note that some of these provisions had bipartisan support in the past, not in this bill, but may be moving forward. With that said, here are some action items for clients to consider in this uncertain environment.

Look into a "Backdoor Roth," as they may be coming to an end. Backdoor Roth rules allow after-tax qualified dollars to be moved to a Roth IRA in a tax-free conversion. If the legislation is passed **as is**, this option goes away effect January 1, 2022. Some pre-retirees and retirees can benefit from distributions that are tax-free and not included in the income calculation for Social Security retirement benefits and the Medicare Income-Related Monthly Adjustment Amount (IRMAA). *For those who want future tax-free income, a conversion before year-end will still work!*

Leveraging sequential Roth conversions? Stay with the plan. For higher-income taxpayers (generally, those with adjusted taxable income (ATI) over $400,000 for Single filers and $450,000 for Married-Filing-Jointly filers) who have started sequential Roth conversions, consider keeping to the schedule. BBB will limit the ability of these to make Roth conversions—but not until 2032. *Still, for those interested in tax-free income, staying on course with sequential conversions is key.*

Check the total balance for all qualified plans. If BBB passes as is, starting in 2029, high income individuals and couples would have their ability to contribute to IRAs limited if they have aggregate retirement account balances above $10,000,000. This makes it critical for client's to monitor retirement accounts and keep track of their total balances in qualified accounts. Under current rules, Roth IRAs do not require the owner to take required minimum distributions (RMDs), whereas traditional IRAs and qualified accounts do. After the Setting Every Community Up for Retirement Enhancement (SECURE) Act, designated beneficiaries (most beneficiaries) still have only 10 years to empty the account. Ultimately, either the account owner or the beneficiary will pay any taxes due, so plan accordingly!

What options might retirees have? For some, using traditional IRA assets earlier in retirement may mean lower tax bills later. Plus, nonqualified assets not used will go to beneficiaries with a step-up in basis. And remember, the beneficiaries of nonqualified annuities still can elect (or be required to use) stretch IRAs. *Thus, clients still might benefit from "total qualified account balance management."*

As currently presented, the BBB spared IRAs and qualified accounts. That being said, managing change is a part of managing retirees' assets. Careful evaluation and continued planning in this uncertain environment can help many retirees maximize their outcomes. As this legislation moves forward, RSG will help you stay up to date on issues that affect your planning practice.

Watch this space to learn more about upcoming legislation and regulations and how they might affect your clients.

Additional Resources and Links

Annuitizing? Consider Using Your "Spend Down" Accounts

Choosing Assets to Annuitize

IRA Rollovers and Lifetime Income: A Game Plan

Seven Reasons to Gift a Roth Conversion

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
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