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Retirement Accounts, Required Minimum Distributions and Trusts by Mark W. Bidwell, a California Attorney

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Retirement planning

HUNTINGTON BEACH, CA, UNITED STATES, January 23, 2020 /EINPresswire.com/ -- The beauty of retirement accounts such as 401ks and IRAs, is they allow for asset appreciation that is not taxed until money is taken out. But the federal government does not want this investment to exist forever, to never be taxed. The rule of an annual minimum distribution was created for the IRS to tax retirement accounts as explained in this article by Mark W. Bidwell, a California trust and probate attorney.

Retirement plans such as 401ks and IRAs transfer from the owner to heirs by designated beneficiary. A designated beneficiary is a person or trust identified as the payee on the death of the retirement account owner. Plan administrators provide forms for the owner to name or change the designated beneficiary.
A trust is not needed for retirement accounts. But a trust is an allowed designated beneficiary. The problem with a trust is the plan administrator. Many plan administrators and financial institutions throw up obstacles in the transfer from a decedent's trust to heirs.

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>
> *Mark W. Bidwell*

It is more expedient and less of a headache to identify individuals as the designated beneficiaries. Despite plan administrators, a trust should be a designated beneficiary when the owner has minor children or a child with special needs.

While living, minimum distributions begin at the age of 72. Each annual required minimum distribution is based on the life expectancy of the owner. IRS actuary tables determine life expectancy for each year of age. The balance of the IRA or 401k is divided by life expectancy in years for the "required minimum distribution."

If distributions are not taken, or if the distributions are not large enough, the owner will pay a 50% excise tax on the amount not distributed as required. According to the IRS, just 20.5% of owners are expected to take only the minimum in 2021. Most people need their retirement money for living expenses and cannot afford the luxury of transferring wealth to their children and grandchildren.

On the death of the first spouse the surviving spouse “rolls over” the deceased spouse’s 401k or IRA into his or her own IRA. The surviving spouse uses his or her own life expectancy for required minimum distributions. For other heirs, distributions have become more restrictive under the “Secure” Act beginning in 2020.

Prior to 2020 on the death of a 401k or IRA owner, the beneficiary’s annual required minimum distribution was based on his or her life expectancy. Life expectancy was calculated using IRS actuary tables. Under the “Secure Act” required minimum distribution is now over a ten-year period, with some exceptions.

Inherited 401ks and IRAs allow for asset appreciation that is not taxed until money is taken out. The Secure Act shortens the life of inherited retirement accounts to ten years. Failure to take any distributions, or if the distributions are not large enough, will result in a punishing 50% excise tax on the amount not distributed as required.

The beauty of retirement accounts such as 401ks and IRAs, is they allow for asset appreciation that is not taxed until money is taken out. The rule of an annual minimum distribution was created for the IRS to tax retirement accounts. The new tax law limits the life of an inherited retirement account to ten years. A trust is not needed for retirement accounts.

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