Consider This Program

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On This Show:

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Show Notes:

Topics Include:

- ABLE Accounts with Darren Hardesty
- QDROs
- Stretch IRAs
- Shrinking Trust Fund

ABLE Accounts with Daren Hardesty

Daren is one of our associate advisors. What's an able account? An ABLE account stands for Achieving a Better Living Experience that was passed. It's an act that was passed in 2014 for people with disabilities. Not everybody that has a disability can qualify. The major thing is that you had to have had a disability before you turned the age of 26, and this disability has to be something that a doctor has been able to diagnose you with before that time.

If you are over the age of 26, let's say you were in a car accident or some kind of a situation where you achieved a disability later in life, you do not qualify for this account. Who contributes to this account? It's essentially the owner of the account, the person with the disability. It could be a parent, it could be a family friend, as long as the amount that is contributed every year does not go over the amount of $15,000. That is the contribution limit for an ABLE account each year. There's probably certain qualified expenses that you can use from this account. What are some examples of things that you could use? There's a long list, but some major things would be education and assistive technology. If it's anything that would help enhance the life of somebody with a disability, there's a very good chance that it would

qualify as an expense that could be used with this account. If they're already on another government type program assistance program, will having an ABLE account or pulling money out of an ABLE account cause them to lose benefits? It will not take away from your SSI, your Medicaid benefits, as long as you don't have more than $100,000 within the account. Anything over that amount will start going against your benefits that you qualify for. You can still maintain those government benefits.

In a special needs trust, I have to be able to take the money out for anything that clearly does not provide normal living. In an ABLE account, can you take a withdrawal for anything or do the same rules apply? It's essentially the same rules. This counts towards housing. It counts towards anything that you would need that would be considered a qualified expense. There are some limitations. Is that $15,000 what can be entered per account per year or by each individual? Gifter. Each individual that owns an account can only have one. You can only have up to $15,000 aggregate. It could be multiple people giving to that account. There is a second rule. If you're in an age where you can have a job and you don't, if you have a job and you're not contributing to a qualified retirement account, you can actually add a certain amount of money up above that $15,000 from your earned income. There are some limitations on that, but it's somewhere around $12,000 of additional money that you can add, as long as you're not also putting money into a 401k or other qualified retirement accounts.

QDROs

QDROs are one of those terms that most of you have never heard of. Occasionally we help people where a divorce has already occurred. Contrary to popular opinion by many attorneys, IRAs do not transfer via QDROs. IRA's are not qualified. IRA's are transferred via court order. This is the only time in your life where you can have two living spouses and have money transferred from your retirement plan to his retirement plan.

It has to be because of court order and it has to come because of divorce. Other than that, you can leave anything you want to your spouse at death. If it's a qualified plan without your spouse signing off, it has to go to that. From a taxation standpoint, if it's a 401k; it's the same. The QDRO is nothing more than a document issued by the court that says you get half of my 401k. People really get into trouble with pensions. That's when you have a defined benefit plan and it is your responsibility.

Do all plans through your employer allow for a QDRO? It probably has to go with how the plan is done and detailed. It's why I have a CPA on our team. It's why we have attorneys that we work with to be able to figure these out as we need to. QDROs require that you go through a divorce. You have to go through divorce, which obviously by nature requires some sort of court proceeding and then there's the property settlement. It is complex.

Stretch IRAs

If you have an IRA or a 401k you may be having a traumatic experience right now because your stretch has fallen apart. It's not really your stretch. Your spouse gets to do the same thing that you would. Pre-virus, on December 20th of 19 of 2019, the IRS passed what was called the SECURE Act. You have

three different kinds of beneficiaries: spouse, non-spouse and non-designated. Non-designated is when you don't put somebody you're married to. Then there's their non-spouse, which is typically your kids. Prior to January, if I died and I was under 70 and a half, Barb could roll my Roth IRA into her Roth IRA and use it whenever she wanted to. There'd be no required minimum distributions. It's all tax free. I have required minimum distributions on a Roth. As the owner, you do not. You do on a Roth 401k, but not on a Roth IRA. I'm under 70 and a half, Barb and I both die, and the kids inherit the Roth IRA. All of a sudden they have access to all of that money at one time.

When you move right on along to January 1st, the stretch has been eliminated. There are no more required minimum distributions for anybody who died after January 1st of 2020. What happens though is in 10 years, we have to eliminate the account. All of the money that's inside of there, you have to pull out at one time. If it's in an IRA, it's fully taxable. If I die on time, as they say, your life expectancy at about 84 and a half, our kids should be at their highest earning years and suddenly they've inherited this IRA and this 401k. You've got all of this money that has to be distributed over a 10 year period of time. Let's say I have a $3 million 401k and I died. That means Kaylee and Kendra would have to recognize $300,000 a year, $150,000 a piece each year for the next 10 years. That didn't even count the growth. The taxation on that is higher. It moves them into the 22 and 24% tax brackets. This requires very careful planning.

The SECURE Act made it so required minimum distributions no longer start until you're 72, not 70 and a half. You can still take the money at 70 and a half. You can still take the money at 60 without a penalty. You're just going to pay taxes on it because of Covid in 2020. There is no required minimum distribution requirement. If you haven't taken the money out yet, you can put it back in. You can still do qualified charitable distributions if you want to. The bottom line is RMDs are not required regardless of your age.

Shrinking Trust Fund

Is the trust fund really going to be broke by 2030 or 2034? The answer is based on math and it looks like it. You just get a reduction. All over the news, they're talking about the estimated shortfall of Social Security. When social security first started out, it kicked in for people who were already dead based on life expectancy. In theory, it was one of the largest age discrimination acts in history. They needed old people off the assembly lines out of manufacturing and so they gave them a check to go home. The average life expectancy was like 64 and you got the check at 65. It was totally income tax free, but there was no cost of living allowance and inflation is a big issue. The destruction of purchasing power is a big issue.

We go all the way through the thirties, forties and then into the fifties, all of a sudden half of it's now taxable. In the seventies, inflation started to take off, peaking in 1980. People decided that we should have a cost of living allowance attached to Social Security. If that would have never happened, we would probably be okay today, but it did happen. The interest rate or the CPI (Consumer Pricing Index) is very low. We're now a point in time where we're down to like 11 workers paying in for every one person pulling it out. You think the majority of people in Social Security are people who are aged. There's a lot of them that are either beneficiaries, kids of people, or they're on disability.

What impact did the baby boomers have on this with the amount of people? Not much yet. The peak of the baby boom was 1960. If you do the math, they're 60. You're not eligible for social security until 62.

The first people, born in 1944 that started the baby boom, have already been taking it. That's why you're seeing these numbers of the trust fund running out sooner. People are living longer than what they expected.

Almost 40% of the people in America that had jobs that made $40,000 a year or less lost a job in March. The lower tranche of income earners get the majority of their income paid back in Social Security, the people that are in the middle tranche get a little less, and the people that pay in the most get the least back percentage wise. Welcome to a progressive tax system. What has to happen for there to be money there? What has to happen or what will happen and what should happen are probably two different things. What will probably happen is we'll be fully taxable at some point and based on other assets you have. It'll be reduced based on other income which is another form of taxation.