Investment Solutions, Inc.

The Long Run Newsletter

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In This Issue:

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How the SECURE Act 2.0 Changed RMDs

In the final days of 2022, Congress passed the SECURE Act 2.0, a new set of rules designed to help investors who wanted to contribute to retirement plans. Many of these changes were intended to give investors more flexibility and new ways to enhance their retirement strategies. It was a follow-up to the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, which was also an important piece of legislation aimed at helping investors save more effectively.

Both the SECURE Act and SECURE Act 2.0 have dozens of provisions, including new rules that may impact retirement. Here are a few things you might want to know about how the SECURE Act 2.0 changed required minimum distribution (RMD) rules and how qualified charitable distributions (QCDs) may fit into how you choose to take these distributions.

Remember, this article is for informational purposes only and is not a replacement for real-life advice. We encourage you to consult your tax, legal, and accounting professionals before modifying your retirement income strategy.

The SECURE Act 2.0 and Required Minimum Distributions

RMDs are the amount of money that investors must withdraw each year from certain retirement accounts. These withdrawals are taxed as ordinary income. You can begin taking penalty-free withdrawals at 59½ or earlier in some cases if you have experienced a qualifying life event.

In the past, retirement distributions were required beginning at age 70½. Under SECURE Act legislation, investors can wait until age 72 or age 73 if they turn 72 after December 31st, 2022.[1]

Forgetting to take these required distributions can come with penalties! The penalty was previously a 50% excise tax. Still, the SECURE Act 2.0 reduced that penalty to 25%, or 10%, if the minimum distribution oversight is corrected within two years and the proper paperwork is filed. In some cases, that penalty may be waived altogether if the account owner made a "reasonable error" and took documented steps to correct the oversight.[1]

The Qualified Charitable Distributions (QCD) Approach to Required Minimum Distributions

QCDs can offer an opportunity to support your favorite causes and manage your retirement income. They allow those who are obligated to take RMDs to donate those funds directly from specific retirement accounts to qualified charities without recognizing the distribution as taxable income.

Here's how it works: Individual retirement account (IRA) withdrawals are generally taxable, but QCDs are excluded from taxable income, meaning they do not increase your adjusted gross income. For some, this may be a strategy to consider when balancing supporting a charitable organization with managing taxes.

You must be at least 70½ years old to qualify for a QCD. The distribution can be made from an IRA. You can also donate from a SEP IRA or SIMPLE IRA as long as they are inactive, meaning that you've made no contributions to the account in the year the QCD is distributed. However, remember that 401(k)s and other non-IRA retirement vehicles do not qualify for QCDs.

To qualify for the tax- and penalty-free withdrawal of earnings. Roth IRA QCD distributions must meet a 5-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

The maximum annual limit for QCDs is currently set at $100,000 for 2024, an amount that adjusts annually for inflation. Therefore, staying updated on the annual cap is important, as it can influence your donation strategy.

It's prudent to confirm the status of your chosen charity through the IRS Online Search Tool or by consulting a professional who can speak to the tax status of the organization. If you withdraw and then donate the funds, it does not count as a QCD and becomes taxable.

As with many financial strategies, your state may have specific rules impacting how QCDs are treated. It's vital to check with a tax professional about state-specific regulations.

A financial professional can help you take your RMDs or set up QCDs, In addition, if you have any questions or concerns about how the changes enacted by the SECURE Act or SECURE Act 2.0 might affect your retirement strategy, please don't hesitate to reach out. We're here to help you make the most of these updates and navigate your retirement strategy.

Citations:

1.IRS.gov

What to Look for in an Extended-Care Policy

Extended-care coverage can be complex. Here's a list of questions to ask that may help you better understand the costs and benefits of these policies.

What types of facilities are covered? Extended-care policies can cover nursing home care, home health care, respite care, hospice care, personal care in your home, assisted living facilities, adult daycare centers, and other community facilities. Many policies cover some combination of these. Ask what facilities are included when you're considering a policy.

What is the daily, weekly, or monthly benefit amount? Policies normally pay benefits by the day, week, or month. You may want to evaluate how (and how much) eldercare facilities in your area charge for their services before committing to a policy.

What is the maximum benefit amount? Many policies limit the total benefit they'll pay over the life of the contract. Some state this limit in years, others in total dollar amount. Be sure to address this question.

What is the elimination period? Extended-care policy benefits don't necessarily start when you enter a nursing home. Most policies have an elimination period - a time frame during which the insured is wholly responsible for the cost of care. In many policies, elimination periods will be either 30, 60, or 90 days after nursing home entry or disability.[1]

Does the policy offer inflation protection? Adding inflation protection to a policy may increase its cost, but it could be very important as the price of extended care may increase significantly over time.

When are benefits triggered? Insurers set some criteria for this. Commonly, extended-care policies pay out benefits when the insured person cannot perform 2 to 3 out of six activities of daily living (ADLs) without assistance. The six activities, cited by most insurance companies, include bathing, caring for incontinence, dressing, eating, toileting, and transferring. A medical evaluation of Alzheimer's disease or other forms of dementia may also make the insured eligible for benefits.[2]

Is the policy tax qualified? In such a case, the policyholder may be eligible for a federal or state tax break. Under federal law and some state laws, premiums paid on a tax-qualified extended-care policy are considered tax-deductible medical expenses once certain thresholds are met. The older you are, the more you may be able to deduct under federal law. You must itemize deductions to qualify for such a tax break, of course.[3]

Keep in mind, this article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax professional before modifying your extended-care strategy.

How strong is the insurance company? There are several firms that analyze the financial strength of insurance companies. Their ratings can give you some perspective.

There are many factors to consider when reviewing extended-care policies. The best policy for you may depend on a variety of factors, including your own unique circumstances and financial goals.

Citations:

1. ACL.gov, 2024
2. Insurance.ca.gov, 2024
3. AALTCI.org, 2024

For Your Information

- We are open from 9:00 a.m. – 5:00 p.m. Monday through Thursday, and 9:00 a.m. – noon on Fridays.
- We are open during the lunch hour.
- We have a mail drop on the far north door of the building. If you have any information you would like to deliver after normal business hours please drop it off there.
- We are in the process of upgrading our phone system in January. When the upgrade is completed you will be notified of the following new numbers when you call our office:

  Calling Long & Associates, P. C. 405-663-2918 will be upgraded to 405-776-0600
  Calling Investment Solutions, Inc. 405-663-2916 will be upgraded to 405-776-0900
  Fax Number 405-663-2126 will be upgraded to 405-776-0700

Learn from yesterday, live for today, hope for tomorrow.

New year is the glittering light to brighten the dream-lined pathway of future. – Munia Khan

Long & Associates, P.C.

Assisting you with accounting, tax preparation, and tax planning

Investment Solutions, Inc.

Advising you and creating strategies for investment and retirement planning

Benefit Resource Group, Inc.

Handling employee benefits and other business services

Whether you need one of these services, or all three, you'll work with the same professional, knowledgeable staff with our Comprehensive Solutions Program