**Subject:** July Newsletter: New, Complicated Rules for Non-Spouse IRA Beneficiaries. Plus, Turning 40 Soon? Buy Life Insurance Now.

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**From:** Greenleaf Financial Group

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**Hello Jennifer:**

**Welcome to the Greenleaf Guide**

*A Newsletter for Clients of Greenleaf Financial Group*

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Market Update: Stocks Rise Again

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Did Greenleaf Financial Group Apply for a PPP Loan?

## In Review

### Market Update

Stocks continue to defy the present-day difficult economic circumstances.

Results in July were robust and areas with year-to-date declines came to life. Small-comany stocks, real estate stocks, and "value" segments such as energy and financials enjoyed returns around 6%.

Market watchers are debating whether this is a short-lived rally or if the Spring 2020 declines are fully in the past. In 1929 and 1937, there was a similar cycle -- i.e., a rapid rebound after a severe decline -

July 2020

## Spotlight On

# Non-Spouse IRA Beneficiaries: No Longer Simple and Straightforward

For more than 30 years, non-spouse beneficiaries of IRA accounts have had a simple rule to follow: Upon the death of the IRA owner, change the account into an Inherited IRA account and withdraw the required amount each year.

This process allowed the IRA beneficiary to stretch out the required withdrawals over the beneficiary's lifetime. Often referred to as a "stretch IRA," it was a simple, straightforward process and a great estate-planning tool.

Now, however, the SECURE Act has swept away the stretch IRA. The rules are now complex and many IRA owners will want to evaluate their IRA beneficiary designations on a regular basis.

### The Biggest Change: Withdrawals

With the exception of five beneficiary types,

- but the gains were temporary.

Jurien Timmer, a director and specialist in global macroeconomic markets for Fidelity, notes some key differences between the two Depression-era market crashes and the current market.

First, the 2020 stock-market decline was about -35% versus declines of -50% to -90% during the two waves of the Great Depression.

Second, stock markets had to contend with a deflationary spiral in 1929, a raft of fiscal policy mistakes, and the failure to universally adopt good policies. (For details, see the Federal Reserve's history of the Great Depression.)

Timmer believes that the Federal Reserve's actions and policies in 2020 mean we will not return to the lower market levels earlier this year. However, he notes that "the market is not a layup from here." With so much recovery so quickly, it's unlikely that the market can continue to advance at this pace.

Future gains will be harder to come by, though perhaps most investors will be content with some stability in the second half of 2020.

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## Financial Planning Calendar: What to Do in August

the lifetime required withdrawal rules have been replaced by a 10-year rule.

For example, if your father named you as his IRA beneficiary and you are age 50 when your father died, you no longer have a 34.2 year life expectancy payout period. You must now withdraw **the entire IRA balance** by the end of the tenth year after your father's death.

Depending upon the size of the account, many IRA beneficiaries will find that it is better from an income-tax perspective to withdraw from the Inherited IRA in installments over 10 years rather than making one large withdrawal in the tenth year.

**Exceptions for Eligible Designated Beneficiaries**

Five categories of IRA beneficiaries can follow a different path, should they wish to. These five categories are officially known as "Eligible Designated Beneficiaries."

> **1. A Surviving Spouse:** The spouse who was named as the IRA beneficiary can still rollover the account of the deceased spouse into his or her own IRA. Required withdrawals follow IRA rules, not Inherited IRA rules.

For example, Amy is the beneficiary of her now-deceased husband's IRA. Amy can re-name the IRA as her own and defer taking IRA withdrawals until she is age 72.

As is the case with so many financial regulations, this gives married couples tax advantages that unmarried couples do not enjoy.

> **2. A Minor Child:** A child under the age of majority gets to leave the Inherited IRA account intact, but once the child reaches the age of majority, then the 10-year rule applies.

*Next month, we encourage clients to do the following.*

***Task:* Turning 40 soon? If so, don't delay buying life insurance.**

***Why:* If you are under age 40, in good health, and a non-smoker, you will be able to obtain the best rates for term life insurance.**

Although many people enjoy excellent health throughout their forties, life insurance companies know that conditions such as high blood pressure, heart disease, or diabetes often begin to arise in a person's 40's.

Consequently, obtaining a new life insurance policy will cost you more at age 40 than it will at age 39.

If you are coming up on age 40, we encourage you to look into a 20-year term policy now. Parents and grandparents should nudge their adult children to obtain life insurance.

Although it may be a little more complicated to obtain a new policy now, insurers are finding ways to manage. Some, for example, are approving policies, but delaying medical exams until the future, for example.

In every state except Nebraska, Mississippi, and Alabama, the age of majority is 18.

For example, a 12-year old son who was named as the IRA beneficiary of his father does not have to make Inherited IRA withdrawals until he turns age 28. This is because he reaches the age of majority at age 18 and then has 10 years to defer withdrawals.

For a parent thinking about naming young children as beneficiaries, ***it is important to understand that children can still choose to withdraw their inherited IRA money at age 18 when they have unrestricted legal rights to their assets.*** They are not required, however, to make withdrawals until age 28.

Please note that only *children of the parent,* not other children, and not grandchildren, are in this category.

**3. A Person Less Than 10 years Younger than the IRA Owner:** Instead of the new 10-year rule, IRA beneficiaries who are less than 10 years younger than the IRA owner can use their own life expectancy for required IRA withdrawals.

For example, Jill dies at age 82 and leaves her IRA to her 75-year old sister, Alice. Alice can make required annual withdrawals using her life expectancy OR defer withdrawing the entire IRA balance for 10 years.

**4. and 5. A Disabled or Chronically Ill Person:** Disabled or chronically ill individuals can also choose between using their life expectancies for withdrawing from an Inherited IRA account OR taking the 10-year deferment

Once a policy is in place, an insurer cannot change the terms or conditions. Therefore, the best time to buy life insurance is when you are young and healthy.

We recommend working with Bob Gertie at 866-942-4181. His website offers an Instant Term Life Quote to help you see expected costs and insurance options.

Plus, unlike most online quotes, you won't be subjected to multiple, pushy phone calls once you've visited Bob's site for information.

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period.

The beneficiary's status as disabled or chronically ill is determined as of the date of the IRA owner's death.

**Next Steps**

These new rules are not easy to absorb! Please feel free to contact us about your IRA beneficiaries and we can talk through the ramifications with you. Depending upon your goals and circumstances, you may wish to change your current IRA beneficiaries and we are happy to help you.

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## Question of the Month

***Question***

***I have heard that some financial advisory firms received PPP loans. Did Greenleaf Financial Group apply for this low-interest government loan?***

Answer

*We were shocked to learn that more than 1,400 financial advisory firms received taxpayer-backed, potentially forgivable Paycheck Protection Program (PPP) loans.*

*In our view, these loans were not meant for advisory firms, who should be used to -- and able to plan for -- revenue that rises and falls along with the stock market.*

*We strongly feel that it was unethical for these firms to take advantage of a loan program meant to help employees of small firms. Market downturns can last for many months and advisory firms should have enough of a cash reserve to carry them through these times.*

*Some advisors claim that they applied for the loans due to economic uncertainty, but there is never economic certainty in wealth management.*

*In our business, trust, honesty, and transparency are critical. While there was nothing legally wrong about these firms taking PPP loans, their actions speak to a lack of integrity. Indeed, some advisors say they saw the program as "free money." As advisors, we should know nothing is free. In this case, many deserving small businesses gave up trying to get through to a bank administering PPP loans due to the deluge of loan applications.*

*We did not apply for a PPP loan and we challenge any advisor to prove that their employees could not work from home or that their business could not go on advising clients during this pandemic.*



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