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- Edward J. Barrett
  - Founder and CEO of Broker Educational Sales & Training, Inc. (BEST)
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- Live Webinar Presentation:
  - IRA Planning (No CE Credit)
- Self-Study/Correspondence Course: The Advisor's Guide To IRAs (2020 Edition)
  - Electronic Exam
    - State Insurance CE credit (varies with state):
      - 50 /100 Question Electronic Exam
    - CE credit for Professional Designations:
      - CFP = 10 credits
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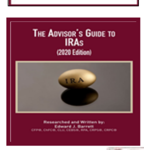
  - Must receive a passing grade of 70% or higher



WEBINAR PRESENTATION

IRA PLANNING

Presented by:

Edward J. Barrett

CFP®, ChFC, CLU, CEBS, RPA, CRPC, CRPS, CPFA

Founder and CEO

Broker Educational Sales & Training, Inc.

Our Agenda

- IRA Background and Market Overview
- Traditional IRAs
- IRA Rollovers
- IRA Distribution Planning
- Roth IRAs

IRA BACKGROUND AND MARKET OVERVIEW

IRA Background

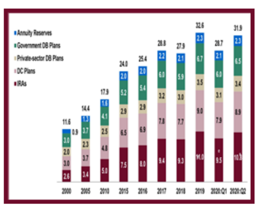
- Individual Retirement Arrangements (IRAs) were first authorized by ERISA – 1974 signed into law by President Gerald R. Ford
- Dual purpose:
  - Provide EE's not covered by an ER pension plan to set up their own tax-deferred accounts made available by financial institutions; and
  - Rollover and transfer qualified retirement plans to IRAs
- IRAs are governed under IRC § 408. [1]
- Numerous legislative changes since 1974. Most recently the Setting Every Community Up For Retirement Enhancement (aka, the SECURE Act of 2019) and the Coronavirus Aid, Relief, and Economic Security Act (aka, the CARES Act of 2020).

Source: [1] https://irc.bloombergtax.com/public/uscode/doc/irc/section_408;

IRA Market Overview*

- IRAs assets totaled $10.8 trillion (as of 2nd Quarter of 2020)[1]
  - IRAs are the single largest component of the total U.S. retirement market ($31.9 trillion)
- IRAs accounted for 34% of all retirement assets.[2]

U.S. Total Retirement Assets



Source:[1], [2] Investment Company Institute , Retirement Assets, September 24, 2020,; https://ici.org/research/stats/retirement/ret_20_q2

U.S. Households Owning an IRA

	Year Created	Number of U.S Households w/Type of IRA[1], 2019	% of U.S. Households with Type of IRA,[1] 2019
Traditional IRA	1974 Employee Retirement Income Security Act (ERISA)	36.1 million	28.1%
SEP IRA[2]	1978 Revenue Act		
SAR-SEP IRA[2]	1986 Tax Reform Act	7.8 million	6.1%
SIMPLE IRA[2]	1996 Small Business Job Protection Act		
Roth	1997 Taxpayer Relief Act	24.9 million	19.4%
Any IRA[1]		**46.4 million**	**36.1%**

[1] Households may own more than one type of IRA [2]SEP IRAs, SARSEP IRAs, and SIMPLE IRAs are employer-sponsored IRAs.
Source: ICI Research Perspective, "The Role of IRAs in Households' Saving for Retirement 2019 and The U.S. Retirement Market, Mid 2019; https://www.ici.org/pdf/per25-10.pdf.

TRADITIONAL IRA

Traditional IRA

> The oldest and most common type of IRA.
  - Regular, Contributory IRA/Spousal IRAs (except a Roth or SIMPLE)

> Two basic types of IRAs:
  - Individual Retirement Accounts - IRC § 408(a)
    - Custodial account (cannot be an individual) – IRC Form 5305A
    - Trusteed IRA - IRS Form 5305
    - Self-directed IRA
  - Individual Retirement Annuity - IRC § 408(b)

> Established by an employed individual who earns "compensation".

www.irs.gov/pub/irs-pdf/p590.pdf

What is Compensation?

Includes…

> Wages, salaries, etc.
> Commissions
> Self-employment income
> Non-taxable combat pay
> Non-tuition fellowships or stipend payments and certain difficulty of care payments[1]

Does not include…

> Earnings and profits from property
> Interest and dividend income
> Pension or annuity income
> Deferred compensation
> Income from certain partnerships

Note: *The Tax Cuts and Jobs Act of 2017, Section 11051, Repeal of Deduction For Alimony Payments. Beginning January 1, 2019 alimony payments to an ex-spouse are no longer deductible to the payer, and not taxable to the recipient.

[1]Source: The SECURE Act (Section 106)

Traditional IRA Contributions

> For 2020 (IRC § 219): The lesser of:
  - $6,000 ($7,000 if over the age of 50), or taxable compensation for the year, if the individual's compensation is less than the $6,000 ($7,000 if over the age 50) dollar limit; and reduced by the amount of Roth contributions made in 2020.

> Must be made in cash (exception rollover contributions).

> Must be made by due date of return, generally, April 15th does not include extensions (CARES Act/July 15, 2020)

> There is no longer an age limit for contributions (SECURE Act Section 107). Must have compensation.

> Deductible and Non-deductible contributions

> IRS Form 5498 must be delivered to the IRS and to the IRA participant (May 31 of the following tax year)

http://www.irs.gov/pub/irs-pdf/f5498.pdf

IRA Tax Deductible Contributions

> Who can make a tax deductible contribution to an IRA?
  - Any taxpayer who does not have a retirement plan at work; and
  - Any taxpayer with a retirement plan at work may be limited or phased out completely from making deductible contributions
    - o "Active participant"
    - o Modified Adjusted Gross Income (MAGI), and
    - o Filing status

Source: IRS Statistics of Income (SOI) 2017 Released March 13, 2020; ; https://www.irs.gov/statistics/soi-tax-stats-accumulation-and-distribution-of-individual-retirement-arrangements

Active Participant Defined

> "Active Participant" (Form W-2 "Retirement Plan Box")
  - **Defined Contribution Rule:** ER sponsored pension, profit sharing plan, stock bonus, or annuity plan, a 403(b), a SEP, Simple IRA, self-employed Keogh plan and in a governmental 457(f) plan. Contributions must be made to the plan.
  - **Defined Benefit Rule:** If an employee is eligible to participate in their employer's DB plan for the plan year, they are considered covered by the plan

http://www.irs.gov/pub/irs-pdf/fw2.pdf

MAGI Phase-Out Deductible Contributions

Traditional IRA	2020	2019
Single Taxpayer (HHLD)	$65,000 - $75,000	$64,000 - $74,000
Married Filing Jointly	$104,000 - $124,000	$103,000 - $123,000
Married Filing Jointly (one Spouse non-active participant)	$196,000 - $206,000	$193,000 - $203,000
Married Filing Separately	$10,000	$10,000

MAGI: https://www.irs.gov/business/small-business-self-employed/passive-activity-loss-atg-exhibit-2-2modified-adjusted-gross-income-computation

Non-deductible IRA Contributions

- Tax Reform Act of 1986 – IRC § 408(o) – allowed nondeductible IRA contributions (1987)
  - Generally, anyone who has compensation can make a nondeductible contribution up to the general limits (Regular:$6,000 and Catch-up: $1,000)
- Must designate on IRS Form 8606 (builds cost basis)
  - Fail to file: all contributions will be deemed as deductible contributions (fully taxable).
  - Any distribution from IRA with nondeductible contributions must file form to recover basis.

www.irs.gov/pub/irs-pdf/f8606.pdf

Spousal IRA

- Created by the 1976 Tax Reform Act
- Allows a working spouse to make contributions for his or her non-working spouse.
- Contribution same as eligible individual:
  - The lesser of: $6,000 ($7,000 if over the age of 50), or combined taxable compensation for the year, if the combined compensation is less than the $6,000 ($7,000 if over the age 50) dollar limit; and reduced by the amount of Roth contributions made in 2020.
- No age exception
- Should open two separate accounts

Excess Contribution Tax Penalty

- Made in excess of the maximum contribution and failed to remove the correct amount [IRC § 4973].
  - Nondeductible excise tax of 6 % per year on the excess contribution.
- Corrective Action (Distribution)
  - Remove the excess contribution and earnings prior to filing tax return (plus extensions). Earnings are prorated on all assets in the IRA
  - Can be removed either in cash, or securities or both
- Must file IRS Form 5329 (also used to report 50% tax for not taking proper RMD)

http://www.irs.gov/pub/irs-pdf/i5329.pdf

Employer Sponsored IRAs

- SEP IRA –Governed by IRC § 408(k). ER contributions only (No catch up contribution). Up to $57,000 in 2020.
- SIMPLE IRA - Governed by IRC § 408(p). No more than 100 EEs earning $5,000. EE elective deferral $13,500. ER up to 3% match ($450K); Or, 2% non-elective ($285,000) $5.700. Catch-up contribution $3,000. 25% Tax penalty on distribution in first two years.
- SECURE Act:
  - Section 104: Increases tax credit for plan startup costs for small business employers for the first three years of the plan to $5,000
  - Section 105: Provides a new tax credit for small employers who adopt a plan with automatic enrollment. The credit is $500 for three years regardless of when the automatic enrollment provisions are adopted.
  - Both credits are available beginning in tax year 2020

IRA ROLLOVERS

Types of Rollovers

- Rollovers are governed by IRC § 402 (c)
  - Transfers (Trustee-to-Trustee)
  - Rollovers
- IRA Rollovers from ESRP have fueled the growth of IRAs (not contributions).[1]

Year	# of Taxpayers (m)	Rollover Amount[2]
2017	4.7	$478.0
2016	4.8	$444.7
2015	5.0	$472.6
2014	4.9	$434.8
2013	4.7	$404.0
2012	4.4	$344.0
2011	4.2	$305.3
2010	4.3	$299.7

Source[1]: ICI Research Perspective, "The Role of IRAs in Households' Saving for Retirement 2019 and The U.S. Retirement Market, Mid 2019; https://www.ici.org/pdf/per25-10.pdf; IRS Statistics of Income (SOI) 2017; https://www.irs.gov/statistics/soi-tax-stats-accumulation-and-distribution-of-individual-retirement-arrangements

What is a Transfer?

- The term used when ***the same type of retirement plan is moved from one firm to another, or with the same firm*** (i.e., Roth IRA to Roth IRA).
- Transfers are not reported to the IRS, nor are those funds taxable because assets are never made payable or distributed to the participant.
  - Trustee-to-Trustee transfer
- Any type of IRA: Traditional IRA, Roth IRA, SEP IRA and SIMPLE IRA (after 2nd year).

What is a Rollover

- The term used when the *same type of retirement plan funds are distributed and recontributed to the same IRA or to another IRA of the same type* (Traditional IRA to Traditional IRA).
- Two types of Rollover:
  - Direct Rollover; and
  - Indirect Rollover.
- Amount distributed must be reported to IRS (1099-R/1040). Maintain tax deferral of funds.

What is a Direct Rollover?

- Moving assets out of an employer sponsored retirement plan (401(k), 403(b) and/or 457 plans) directly to an IRA.
  - A direct rollover is different from a Transfer because it involves two different types of plans.
- There is no mandatory 20% WH requirement. And not treated as a rollover for purposes of the one rollover per year (unlimited). Must be reported
- A direct rollover may be made for the employee, for the employee's surviving spouse, for the spouse or former spouse who is an alternate payee under a qualified domestic relations order (QDRO) or for a non-spouse designated beneficiary, in which case the direct rollover can only be made to an inherited IRA. If the distribution is paid to the surviving spouse, the distribution is treated in the same manner as if the spouse were the employee.

What is an Indirect Rollover

- A **distribution to the participant**, followed by the participant re-depositing the distribution in the same or another plan or IRA within 60 days [IRC § § 402(c)(3)(a), 408 (d)(3);].
  - Same property rule: Rollover same cash or property received in distribution. However, if distributed property is sold, may rollover proceeds from sale (amount distributed) [Rev. Rul. 87-77].
  - Indirect rollover from ESRP has a mandatory 20% withholding rule sent directly to the IRS. IRA 10% elective.
  - Prior to 2015, the IRS allowed one indirect rollover for **each IRA** in a one year period [IRC § 408 (d)(3)(B)]. Multiple rollovers were allowed.
- IRS Announcement 2014-32 (one-indirect rollover per year)

IRS Announcement 2014-32

- Beginning 1/1/2015, a taxpayer will only be able to do one indirect rollover per a 12-month period [Tax Court Decision: Alvin L. Bobrow v. IRS]
  - This rule also includes SEPs, SIMPLE IRAs and Roth IRAs
  - The 12-month period is 365 days, not a calendar year, and starts on the day the participant receives the distribution [IRC § 408(d)(3)(B)].
- Exempt: Trustee-to-Trustee transfers; Direct IRA rollovers, traditional IRA rollovers/conversions to a Roth IRA, rollovers from an ESRP, or to an ESRP, and in-plan DRAC Roth conversions. And of course, Inherited IRA Rollovers (must be done as a direct rollover).

Hardship Exceptions Rule

- EGTRRA of 2001 added IRC §§ 402(c)(3)(b), 408(d)(3)(I), known as the **hardship exceptions**, which **allows the IRS to waive 60-day requirement** if failure to do so would be against equity and good conscience. The Pension Protection Act of 2006 made permanent in the tax code.
- Rev. Proc. 2016-47 offers broad relief for missed rollovers with a certification process which will extend the 60-day time limit (subject to verification on audit).
  - Error of institution; Lost check; Deposited into wrong account; Severely damaged residence; Death in family; Serious personal or family issues; Incarcerated; Foreign restrictions; Postal error; Return of tax levy from IRS; and IRA trustee didn't share information in timely manner.

Retirement Plan Rollover Chart

This is a chart of what the Internal Revenue Service regards as permissible when rolling funds over from one type of retirement account to another. IRS Publication 590-A Table 1.4

Rolling Funds From	Rolling Funds To: 401(k)	403(b)	457(b) (Governmental)	IRA	SEP IRA	SIMPLE IRA	Roth IRA	Designated Roth Account
401(k)	Yes	Yes	Yes[4]	Yes	Yes	Yes[6]	Yes	Yes[3]
403(b)	Yes	Yes	Yes[4]	Yes	Yes	Yes[6]	Yes	Yes[3]
457(b) (Governmental)	Yes	Yes	Yes	Yes	Yes	Yes[6]	Yes	Yes[3]
IRA	Yes	Yes	Yes[4]	Yes[5]	Yes[5]	No	Yes	No
SEP IRA	Yes	Yes	Yes[4]	Yes[5]	Yes[5]	No	Yes	No
SIMPLE IRA	Yes[1]	Yes[1]	Yes[1,4]	Yes[1,5]	Yes[1,5]	Yes[5]	Yes[1]	No
Roth IRA	No	No	No	No	No	No	Yes[5]	No
Designated Roth Account	No	No	No	No	No	No	Yes	Yes[4]

1. Rollovers from SIMPLE IRAs only allowed after two years of participation.
2. Must have a separate account.
3. Must be an in-plan rollover.
4. If it is a direct trustee-to-trustee transfer.
5. Beginning in 2015, only one rollover allowed in any 12-month period.
6. After December 18, 2015 and only after two years of participation in the SIMPLE plan.

Non-spouse IRA Rollovers

- Section 829 (a)(1) of the Pension Protection Act of 2006 (PPA) created IRC § 402(c)(11) which allows an ESRP to be rolled over to a non-spouse Inherited IRA (Traditional and Roth IRA).
- Eligible employee sponsored retirement plans (ESRP) include:
  - Qualified plans [IRC § 401(a)(1)]
  - IRC § 403(a) and (b) annuities, and
  - IRC § 457 plans
- Must be established through a trustee-to-trustee transfer (treated as an Inherited IRA)
  - Must keep inherited IRA in the name of the deceased IRA owner:
    - Individual: James Smith, deceased (DoD), IRA for benefit of Tom Smith"
    - Trust: "James Smith, deceased (DoD), IRA for benefit of Tom Smith as Trustee of the Smith Family Trust dated 1/1/2020"

IRS Notice: 2014-54

> Effective January 1, 2015, all disbursements from a retirement plan scheduled to be made at the same time are treated as a single distribution even if sent to multiple destinations.
  - Rule: Taxpayers with pre-tax and after-tax amounts in their plan can transfer, through direct rollovers, the pre-tax portion of the distributions from QRPs under IRC § 401(a).

> This includes earnings on after-tax amounts to a traditional IRA and the after tax portion of the distribution to a Roth IRA.

> Does not apply to distributions from traditional IRAs.

IRA Rollover Suitability

> FINRA Regulatory Notice 13-45: To "remind [broker-dealer] firms of their responsibilities" when recommending rollovers to IRAs and marketing IRAs and associated services. Rollover Options that should be discussed with retirement investor:
  - Take a lump-sum distribution; Leave it in the Company plan; Roll to a new Company plan; IRA Rollover; or Roth Conversion;

> Some factors to be considered:
  - Investment options: Fees and expenses; Services; Penalty–Free Withdrawals; Protection from Creditors and Legal Judgments; Required Minimum Distributions (RMDs); and Employer Stock (NUA).

> SEC Reg. BI: Best interest standard: Disclosure obligation; Care obligation; Conflict of interest obligation; and Compliance obligation

Source: FINRA; http://www.finra.org/file/regulatory-notice-13-45.

DOL's New Fiduciary Rule

> The Five-Part Test: Advisors will be classified as investment advice fiduciaries if they:
  1. Render advice as to the value of securities or other property, or make recommendations as to the advisability of investing in, purchasing, or selling securities or other property;
  2. On a regular basis;
  3. Pursuant to a mutual agreement, arrangement, or understanding with the plan, plan fiduciary or IRA owner/plan participant that;
  4. The advice will serve as a primary basis for investment decisions with respect to plan or IRA assets, and that;
  5. The advice will be individualized based on the particular needs of the plan or IRA

> Impartial conduct standards – Acting in the client's best interest; receiving only reasonable compensation; and refraining from misleading statements.

IRA DISTRIBUTION PLANNING

IRA Distribution Rules

- During the IRA Participants Lifetime; and
- After the IRA Participants Death

https://www.irs.gov/forms-pubs/about-publication-590-b

Distribution During Participant's Lifetime

- **Prior to age 59 ½** - Distribution taxed as ordinary income plus, 10% addition to tax penalty [IRC § 72(t)(1)]. Deductible and nondeductible contributions must follow the pro-rata and aggregation rules)
  - Exceptions to 10% penalty (overall 11 exceptions) [IRC § 72(t)(2)]
    - SECURE Act (Section 113) added distribution for birth and/or adoption ($5,000 max)[1]
- **Ages 59 ½ to age 72** – taxed as ordinary income.
- **Age 72+** – SECURE Act (Section 114) new RBD must begin RMDs (IRC § 401(a)(9)]: RBD: Generally, April 1st of the year following the year the participant turns age 72:
  - Uniform Lifetime Table; or
  - Joint life expectancy table (spouse more than 10-years younger) results in a smaller RMD

CARES Act Section 2203*

> Temporary Waiver of RMD Rules for Certain Retirement Plans and Accounts for the year 2020 [IRC § 401(a)(9)(I)]
  - The CARES Act provides a special provision to deal with the individual whose first "distribution year" was 2019 and therefore whose "required beginning date" is April 1, 2020.

> IRS Notice: 2020-23 extends 60-day rule to July 15, 2020

> IRS Notice 2020-51 extended 60 day rule to August 31, 2020

Source: *The CARES Act; https://www.congress.gov/116/bills/s3548/BILLS-116s3548is.xml; IRS Q&A: https://www.irs.gov/newsroom/coronavirus-related-relief-for-retirement-plans-and-iras-questions-and-answers

CARES Act Section 2022*

> "Coronavirus-related distributions" from QRPs and IRAs up to $100,000 (1/1/20 -12/31/20).
  - No 10% early distribution penalty; No 20% withholding; Income on distribution reported over 3 years/3 year re-contribution period
  - Eligibility: Diagnosed with COVID-19 by a test approved by the CCDCP; Spouse or dependent is diagnosed with COVID-19; or the individual experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to COVID-19; Unable to work due to lack of child care due to COVID-19; closing or reducing hours of a business owned or operated by the individual due to COVID-19; or other factors as determined by the Secretary of the Treasury.

Source: *The CARES Act; https://www.congress.gov/116/bills/s3548/BILLS-116s3548is.xml; IRS Q&A: https://www.irs.gov/newsroom/coronavirus-related-relief-for-retirement-plans-and-iras-questions-and-answers

Qualified Charitable Distributions (QCD)

> The Protecting Americans from Tax Hikes (PATH) of 2015 provides a provision that makes permanent the IRA QCD.

> QCD Rules [IRC § 408(d)(8)]:
  - IRA accounts only;
  - $100,000 annual exclusion from gross income;
  - Participant must have reached age 70 ½ or older;
  - Distributions must be made directly to Charity;
  - Charity must be an eligible charity [IRC § 170(b)(10(A)]; and
  - No Charitable tax deduction allowed for the participant.

> SECURE Act made no change to age 70 ½ requirement (but there is an issue with QCD anti-abuse rule).

Distributions After IRA Participants Death

- Who is the beneficiary ("Know Your Customer Rule")
  - Primary and Contingent beneficiary:
    - Beneficiary finalization date is September 30th of the year following date of death of the participant.
  - Is the beneficiary a "Designated Beneficiary" or a "Non-designated Beneficiary" (subject to the 5-year rule)?
  - Designated Beneficiary only "individuals" with quantifiable LE. Trust, if qualifies as a "See-Through Trust"
    - Prior Law: Used life expectancy of DB ("Stretch IRA"). Single Life Table ("subtract one" method)
    - The SECURE Act (Section 401), most non-spouse "DBs" must follow the 10-year rule [IRC § 401(a)(9)(H)]:
  - Exceptions: Eligible Designated Beneficiary (EDBs) will be permitted to use LE

Eligible Designated Beneficiaries

- Surviving Spouses – If no rollover is chosen:
  - The LE factor of the spouse using the Single Life Table beginning in the year the IRA owner would have turned age 72. SL table thereafter
- Minor Child – as described in IRC § 409(a)(9)(F):
  - The child of the participant is still a minor (age 26), he/she may use his/her LE to determine RMDs. Once the child reaches the age of majority, the10-year rule applies
- Disabled Persons - as described in IRC § 72(m)(7):
- "Unable to engage in any substantial gainful activity." LE rule
- Chronically Ill - as described in IRC § 7702(B)(c)(2)
  - A chronically ill individual means an individual who has been certified by health care practitioner. Cannot perform 2 ADLs. LE rule.
- Comparable Aged Beneficiaries
  - Beneficiaries who are no more than ten years younger than the participant can also use their life expectancies to calculate required minimum distributions. This rule may benefit, for example, unmarried partners or the siblings of the participant / owner named as beneficiaries.

Trust As A Designated Beneficiary

- See-Through Trusts – four requirements:
  - Trust is valid under state law;
  - Trust is irrevocable upon death of owner
  - Beneficiaries of the trust are identifiable from the trust instrument
  - Document requirement - by October 31 of the year following the year of death—trust documentation must be provided to the custodian.
- Types of Trusts (after the Secure Act)
  - Conduit Trusts (10-year rule)
  - Accumulation ("Discretionary") Trusts (taxed at 37% for income over $12,950)
    - Non-Designated Beneficiary Trust
    - Designated Beneficiary Trust
    - Eligible Beneficiary Designated Trust (Multiple-Beneficiary Trusts)

SECURE ACT Beneficiary RMD Summary

Tax Terminology	Designated Non-Eligible Beneficiary	Surviving Spouse	Eligible Minor Child	Person less than 10 years younger	Disabled or Chronically Ill
Outright beneficiary	Ten-Year Rule	Life Expectancy	Life Expectancy	Life Expectancy	Life Expectancy
Conduit Trust	Ten-Year Rule	Life Expectancy	Life Expectancy	Life Expectancy	Life Expectancy
Designated Beneficiary Trust	Ten-Year Rule	Ten-Year Rule	Ten-Year Rule	Ten-Year Rule	Life Expectancy
Non-Designated Beneficiary	5-year Rule	5-year Rule	5-year Rule	5-year Rule	5-year Rule

Qualified Longevity Annuity Contracts

- QLAC is a type of longevity annuity, that can be purchased inside an IRA (and 401(k) plan) that can provide a guaranteed stream of income that will begin at some point in the future and last for lifetime. Used to lower RMDs
  - Cannot be a VA or Index Annuity
- The ability to avoid RMDs on qualified assets held within a QLAC provides additional deferral benefits that reduce the net costs of annuitizing a portion of retirement wealth.

QLACs Rules

- **Funding:** December 31st prior year IRA balance lesser of 25% or $135,000 (2020), (indexed to annual inflation amounts of $10,000 in future years).
- **Income Payments:** Income start date must be no longer than one month past participant's birth month at age 85. Income payments can increase in the future by additional riders: cost-of-living adjustments that are constant (1% to 5% increase) or by a index such as the CPI-U inflation index. Income payments can be single or joint life, either life income or life income with cash refund and return of deposit death benefit is allowed before and after income commencement date, however amount can not be more than deposit.
- **Reporting Requirements:** QLAC has no reporting requirement for the contract holder.

ROTH IRA

Roth IRAs

- Created by the *Taxpayer Relief Act of 1997* – IRC § 408A
  - Contributions are never deductible but distributions are **normally** tax-free
- Date of original Roth IRA - January 1 of the first year for which a contribution was made to ***any*** Roth IRA maintained for the participant
- No required RMDs for the Roth IRA participant (owner); funds continue to grow tax-deferred.

Contributions to a Roth IRA

- Similar rules as traditional IRA
  - Reduced by any contributions made to a traditional IRA's
- Contributions can be made by participant of any age as long as he/she has earned (income) compensation.
- Regular annual contribution phase –out rules.

Roth IRA MAGI Phase - Out

	2020	2019
Single Taxpayer (HHLD)	$124,000 - $139,000	$122,000 - $137,000
Married Filing Jointly and MFS and did not live with spouse any time during the year	$196,000 - $206,000	$193,000 - $203,000
Married Filing Separately and lived with spouse any time during the year	$10,000	$10,000

Roth IRA Conversions

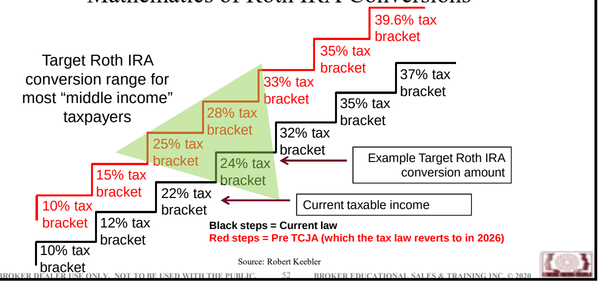
- A second way to contribute to a Roth. There are three ways to make this type of contribution to a Roth IRA:
  - A distribution from a traditional IRA may be rolled over to a Roth IRA [IRC § 408(d)(3(A)(i)];
  - Funds in an IRA may be transferred in a trustee-to-trustee transfer; and
  - All or part of a traditional IRA simply can be “redesignated” as a Roth IRA maintained by the same trustee or custodian [Treas. Reg.§ 1.408A-4, A-1(b)].
- Amount transferred is included in participant’s gross income (but not subject to 10% penalty). There is no limit on the number or amount of conversions. RMDs do not count as income towards conversion.

Conversion Rules to a Roth IRA

- IRA to a Roth IRA
  - Individual Retirement Accounts (under IRC § 408(a)), but not an inherited IRA;
  - A SEP IRA;
  - A SIMPLE IRA (after 2nd year)
- PPA of 2006 permits rollovers from qualified plans, 403 (b) annuities, and/or 457 plans direct to Roth IRA effective for plan years after 2007. Conversion rules changed after 2010 (TIPRA rules) . Must be reported on IRS Form 5498
- Reminder each Roth IRA Conversion has its own “5-year holding period”

Roth IRA Conversions

Mathematics of Roth IRA Conversions



Source: Robert Keebler

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Federal Income Tax Brackets and Rates*

Tax Rate	Single Filers	Married Filing Jointly	Heads of Households
10%	Up to $ 9,875	Up to $19,750	$ 0 - $14,100
12%	$9,876 - $40,125	$19,511 - $80,250	$14,101 - $53,700
22%	$40,126 - $85,525	$80,251 - $171,050	$53,701 - $85,500
24%	$85,526 - $163,300	$171,051 - $326,600	$85,501 - $163,300
32%	$163,301 - $207,350	$326,601 - $414,700	$163,301 - $207,350
35%	$207,351 - $518,400	$414,701 - $622,050	$207,351 - $518,400
37%	$518,400 +	$622,051+	$518,400+

*Brackets for 2020. Married filing separately pay at same rate as unmarried. Source IRS

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Roth IRA Re-characterizations

- The Tax Cuts and Jobs Act (Section 13611) repealed the rule permitting re-characterization of Roth IRA conversions [IRC § 408A(d)(6)](B)], effective 12/31/2017.
- However, the IRS still permits IRA owners to re-characterize ("undo") ***annual contributions*** from one type of IRA (i.e. Roth or Traditional) to the other [IRC § 408A(d)(6)(A)]:
  - Must be done as **a trustee-to-trustee transfer**
- The deadline for re-characterizing a contribution is the extended due date of the tax return for the year of contribution [IRC § 408A(d)(7)]:
  - This would normally be April 15th following the year of contribution, or **October 15th**, of this subsequent year if taxpayer has filed for and obtained an extension (IRS Form 4868).

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Roth IRA Distribution Rules

- During participant's lifetime:
  - Qualified distribution rules (tax-free);
  - Non-qualifying distribution (Contributions, rollovers and Conversions tax free)
  - Ordering Rules (Contributory Assets; Conversion Assets; and then Earnings;
- After participant's death
  - For most non-spouse beneficiaries must follow the 10-year rule (Exception: Eligible Designated Beneficiaries)

Taxation of Roth IRA Distributions

Age	Distribution within 5 years	Distribution after 5 years
< 59½	Income Tax: Yes (earnings only)	Income Tax Year: Yes (earnings only)
	10% Penalty: Yes (earnings & taxable portion of prior conversion amounts)	10% Penalty: Yes (earnings only)
> 59½	Income Tax Year: Yes (earnings only)	Income Tax Year: No
	10% Penalty: No	10% Penalty: No

IRA Creditor Protection

- Bankruptcy Consumer Abuse Protection Act 2005 (BCAPA) - Federal Bankruptcy only, does not include judgments:
  - Maximum $1,000,000 (indexed for inflation every three years) for Traditional IRAs, and Roth IRAs (2019-2022 = $1,362,800). Unlimited protection for IRA Rollovers, SEP-IRAs, SIMPLE IRAs, Self-employed Keogh or Individual Solo-401(k) plans.
- State Protection: State statutes vary (Opt-in/Opt-out)*
- Prohibited Transaction Rule [IRC § 4975]
  - If during any taxable year, an IRA owner (a disqualified person) engages in any transaction prohibited by IRC § 4975, the IRA will be treated as having been distributed as of the first day of the taxable year. Impose an additional 15% penalty.
  - Life insurance is a prohibited investment in an IRA also artwork, antiques and stamps.
- Inherited IRAs – The Supreme Court ruled (Clark v. Rameker) that inherited IRAs are not afforded creditor protection. Review your state laws.

Website: www.assetprotectionbook.com/forum/viewtopic.php?f=142&t=1556

Electronic Exam

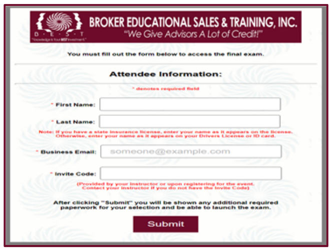
- Some states may require additional forms:
  - Disinterested Third-party Form
  - Personal Attestation Form
- Exam will be available for 10 business days to complete.
- Exam will be graded instantaneously (unlimited retakes)

Electronic Exam Link

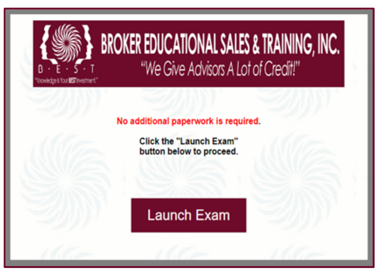
https://selfstudyce.brokered.net/virtual/

EXAM ACCESS CODE: 40815

Virtual Super CE – Step by Step



Virtual Super CE – Step by Step



States With Monitor/Attestation Form

AR	HI	MS	VA
CT	IN	MT	WV
DC	ME	NC*	WY**
FL*	MI*	OH*	
GA	MO	OR	

States requiring a Third Party Monitor; * States that require a Personal Attestation Form. To receive CE credit the Form must be returned to BEST.

Virtual Super CE – Step by Step

Thank You
for attending the webinar

https://selfstudyce.brokered.net/virtual/

Exam Access Code: 40815

BEST: 800-345-5669