



Why Some Retirees May Want to Wait in 2021

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To help address the pandemic and its economic fallout, Congress passed legislation that made important changes to retirement accounts.

In particular, the SECURE Act (2019) and the CARES Act (2020) included provisions that directly affected required minimum distributions (RMDs) for retirement account holders.

Many retirement account owners are now thinking about their RMDs in 2021 and how the possibility of further legislation could impact their decisions.

SECURE Act

Perhaps the most fundamental change for retirement accounts in the SECURE Act was eliminating the so-called “stretch” for most beneficiaries inheriting retirement accounts. In the past, beneficiaries had the option of distributing inherited retirement account assets over their expected lifetimes. Under the SECURE Act, a spouse named as beneficiary can continue to receive distributions based upon his or her life expectancy. For all other beneficiaries (with limited exceptions), the inherited retirement account must be fully paid out in ten years. The new 10-year rule applies to accounts whose original owners died in 2020 and beyond.

The SECURE Act included other changes affecting retirement accounts. This legislation raised the starting age for taking RMDs from a retirement account from 70½ to 72. Also, an individual can now make traditional IRA contributions as long as they have earned income. Before the SECURE Act, people over age 70½ couldn't contribute to a traditional IRA.

CARES Act

The CARES Act suspended the RMD requirement in 2020 for IRAs, 401k's, and other defined contribution plans. The act also permitted a rollover if the account holder wished to return the RMD in full within the 60-day window following the distribution. However, because the CARES Act became law on March 27, 2020, it appeared that account holders who took RMDs prior to January 27, 2020, would not be able to take advantage of the rollover opportunity — they were already outside the 60-day window. In addition, there was no RMD waiver for a beneficiary of an inherited retirement account in the CARES Act provisions.

Halfway through the year, in June 2020, the IRS issued guidance clarifying RMDs impacted by the legislation. The new deadline for rolling back RMDs was set at August 31, 2020, for all account holders, including inherited IRA beneficiaries and retirement account owners who had taken RMDs before January 27. For an RMD taken after August 31, 2020, the normal RMD rollover rules applied, meaning that the rollover must be completed within 60 days of the distribution and the once-per-year rollover rule applied.

Considerations for 2021 RMDs

Many retirement account owners and beneficiaries wonder if additional legislation will be enacted in 2021 to extend the RMD waiver for this year. Is it wise to take the RMD now or wait and see what happens?

Remember that an RMD is presumed to be satisfied by the first distribution that comes out of the IRA for the year. Once an RMD occurs, it is irrevocably distributed (and taxable) and cannot be rolled back into another IRA, unless this is changed by future legislation.

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For those not needing an RMD to fund their lifestyle consider the impact that a forced distribution can have in driving the retiree into a higher tax bracket when stacked on top of other retirement income.

This may result in:

- Higher Medicare Part B or Part D premiums due to the income-related monthly adjustments amount (IRMAA).
- Long-term capital gains being taxed at a higher rate.
- More of Social Security benefits being taxed.
- Net investment income becoming subject to the Medicare surtax.

Also, for beneficiaries that plan on using a Qualified Charitable Distribution (QCD) later during the year to satisfy an RMD obligation, you may want to hold off on taking any distributions from an IRA early in the year that would already be considered to satisfy part of an RMD obligation. Coordination is key to achieving the intended result.

Why waiting may be a good strategy

The economy is recovering, but it has not yet reached pre-pandemic levels. Congress may continue the RMD waiver for 2021. For any regular RMD, the deadline for withdrawal is December 31, 2021, which provides adequate time for Congress and retirement account participants to decide. It may be wise to adopt a wait-and-see approach for taking your RMD, especially if you do not need the money to fund your lifestyle.

For more information, [please contact your Key Private Bank Advisor.](#)

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