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7 WAYS TO UTILIZE THE NEW RETIREMENT PLAN RULES

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Rules are changing at a record pace, and many of the recent changes impact various retirement plans.[1]

Here are seven things you should be considering with your finances right now:

1) Don't take your RMD – As part of the CARES Act relief package, individuals are not required to take their required minimum distribution (RMD) from their IRA or employer-sponsored retirement plan (like a 401(k)). This includes those individuals who were waiting until April 1st of this year to take their 2019 RMD. This not only means you don't have to pay the income taxes normally associated with that distribution, but the dollars can remain invested and continue their tax-deferred growth. If you need the money, then take the distribution. If you are in the fortunate position where you don't need the money, the advantage of leaving it in the retirement plan is income taxes are deferred until it is withdrawn in the future which keeps your 2020 taxable income lower; the funds in your retirement plan continue to grow tax deferred as well.

2) Pay it back – Pay it back – If you've already taken your RMD for this year, there are a couple of potential pieces of good news. The first is that the IRS recently announced that any distribution taken from a qualified plan between February 1st and May 15th, 2020 can be returned to the plan. This effectively makes it as if the distribution never happened,[2] so you avoid taxes on the distribution and the money goes back to work. The kicker? This counts as a 60-day rollover, so you cannot do this if you've already done an indirect rollover in the last 365 days, or if the distribution was from an inherited account. Also, if you have taken multiple distributions during this timeframe, only the last distribution may be repaid. The once-per-year rule does not apply to Roth conversions, so if you have multiple distributions, you could deposit one into your Roth account. You still pay the taxes on the distribution, but tax-free growth on those assets is back in play.[3]

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[1] While we all stay in one place, it seems literally everything else is changing at breakneck speed.
[2] There are a lot of things outside the financial world that happened between February 1st and May 15th that I wish never happened and could be undone, but alas, this seems to be the only thing that comes with a time machine to fix things.
[3] I have no idea how anyone is expected to understand this, track it and get it right. Your wealth manager can help you figure out what, if anything, you should do.

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3) Consider a Roth conversion – Let's say that at the market peak, your traditional IRA was worth $100,000, and you were thinking about doing a $25,000 Roth conversion, which would have moved 25% of your account into a Roth IRA. Now, let's say the account is only worth $50,000 because of the pullback; that same $25,000 Roth conversion now gets half of your traditional IRA money into your Roth IRA, where future withdrawals will be tax-free. For the same tax bill on the conversion, you have now doubled the amount of Roth assets you would otherwise have had once the market recovers, and you take a major bite out of future tax bills on your withdrawals in retirement.

4) Avoid 401(k) loans – Another piece of government relief for workers was doubling the amount of money 401(k) participants could borrow from their plan, up to 100% of the vested balance to a maximum of $100,000. While this may seem tempting on the surface, you only want to exercise this option if it's your last resort (and your plan allows it). The reason is because a loan from the plan is really just a distribution you are allowed to pay back; this means that whatever money you are borrowing is not invested in the market, so when the markets start to recover, you run the risk of missing out on a major portion of the gains, which can deal a major blow to your retirement savings plan. Bottom line: You can borrow, but only look at this as an option of last resort.

5) Keep funding your accounts – Instead of taking money out of your 401(k), you should be looking to put more money into your plan. If your employment is stable, and you are comfortably able, now is a great time to consider increasing your contributions to your employer-sponsored plan, up to the limit. Your contributions reduce your taxable income, which will save you money on taxes, and dollars in your plan grow tax free until you start taking distributions in retirement.

6) Frontload your contributions – By frontloading your contributions you increase the amount of time the money spends invested and improve the long-term growth potential of the plan. Plus, by putting money in when the market is depressed, your dollars buy more shares, which can magnify the impact of your investment. If your employer provides a match, you'll want to confirm with your human resources department that altering your contribution schedule won't prevent you from getting your match.[4]

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[4] A match is free money, and free money, as a general rule, is a good thing.

7) Tip the scales – If you don't anticipate needing to make withdrawals from your retirement assets in the next 5 years, including your IRAs or other qualified plans, now is a great time to be buying stocks. Most employer-sponsored retirement plans are comprised of mutual funds that invest in various areas of the markets, such as US stocks, international stocks, bonds, real estate, etc. If you have time on your side, rebalance your portfolio to buy more stocks and raise the funds by selling some bonds. This is pretty much the definition of "buy low, sell high".

I don't think we have seen the last of all the rule changes, and we will continue to keep you informed as new laws pass. Until then, know that our team of wealth managers, financial planners and accountants are always ready to help you determine the best steps to take.

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