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Financial Professionals Reveal What Their Clients Want to Know

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As a financial professional, your clients likely seek your guidance when they have questions about their finances and planning for retirement. The answers to questions like "how much do I need to save for retirement?" or "will I have enough to retire?" are at the core of what you do. Often, though, these questions just skim the surface.

Some clients have specific concerns about their finances. Below are the top twelve most common questions that I received from financial professionals like you in 2021, as posed to them by their clients. And, of course, my answers.

Social Security and Medicare

FAQ: Do I have to file for Social Security benefits to be entitled to the cost-of-living adjustment (COLA) for 2022? I've read it's the largest in decades.

It's true that the 2022 COLA is 5.9%, the largest since 1983. Individuals don't have to file for benefits to have this COLA applied to their current or future benefits. Still, future beneficiaries must be at least age 62 to have this COLA applied to their benefit rate.

FAQ: I am collecting a widow's benefit, planning to switch to my own retirement benefit at age 70. However, when I log into the online *my Social Security* account, I cannot view my estimated benefits. How can I find that information?

Unfortunately, the answer you are looking for won't be there. Once a claimant starts collecting an auxiliary benefit, his or her retirement benefit estimates won't be available in that account.

One way to get an estimate is to contact the Social Security Administration. Alternatively, people can discover that information by using the online benefit calculator. To do so, they can download historical earnings from their online portal, then enter those numbers and their planned starting date into the calculator. **Click here**.

Worth mentioning is that the newly redesigned two page Social Security benefit statement does not show earnings by year, rather reporting them in ten year bands up through 2020 before showing annual totals from 2001 through the present. Therefore, before entering historical annual earnings into the online calculator, it is necessary to download a complete earnings history found within the *my Social Security* portal.

FAQ: High-income Medicare beneficiaries pay more for Parts B and D, compared to the standard premiums. What is "income" for this purpose?

The standard Part B premium in 2022 is $170.10 a month, but that number can be anywhere from $238.10 to $578.30 for high-income enrollees (The numbers increase with rising income). Part D premiums are much smaller and thus less of a concern.

These premium surcharges, known as Income-Related Monthly Adjusted Amounts (IRMAA), are based on Modified Adjusted Gross Income (MAGI). For IRMAA, MAGI is the regular adjusted gross income, from the enrollee's tax return, plus any tax-exempt interest income. MAGI from 2020 will determine whether IRMAA will apply in 2022; the same two-year lag is applied annually.

Therefore, investing in municipal bonds or municipal bond funds won't help to reduce IRMAA premiums. Other types of income (loans from cash value life insurance and qualified Roth distributions, for example) might play a role in IRMAA planning since those sources of income don't hit the adjusted gross income bottom line.

Individual Retirement Accounts (IRA) and Retirement Plans

FAQ: Can a Roth IRA conversion be done by the tax filing deadline to count for 2021?

No, a distribution from a traditional IRA or an employer-sponsored retirement plan must be implemented (distributed out of the pre-tax retirement account) by December 31 to be considered a Roth IRA conversion for 2021. The tax filing deadline (April 15, 2022) is the last day for a 2021 IRA contribution, traditional or Roth.

FAQ: If I am still working, can I delay Required Minimum Distributions (RMDs) from both my 401(k) and my IRA until I retire, if that comes later than age 72?

Yes, and no. The "still working" exception only applies to qualified plans such as 401(k)s and profit-sharing plans (not Traditional IRAs or employer-sponsored SEP IRAs or SIMPLE IRAs) and as long as the participant does not own 5% or more of the company and the plan allows a delay.

However, for traditional IRAs, RMDs must begin by April 1 of the following year after an IRA owner turns age 72. Each subsequent RMD must be satisfied by the end of the year. These rules also apply to 5% or more owners of the company sponsoring a retirement plan. Keep in mind that if an IRA owner chooses to delay the RMD to the following April 1st, another RMD must be satisfied the same year by 12/31 to satisfy the current year's RMD. Therefore, it may be a better solution to take the first RMD by year-end of the year you turn 72.

FAQ: My sister passed away recently. She was 73. I am her only IRA beneficiary, age 76. Am I subject to the ten-year rule for RMDs?

No. The so-called ten-year rule, accelerating RMDs for most non-spousal beneficiaries of decedents dying after 2019 under the SECURE Act, does not apply here. As her older sibling, you are considered an "eligible designated beneficiary" or EDB, a term that includes someone who is not more than ten years younger than the deceased IRA owner. In this case, you are older and therefore qualify for the "no more than ten years younger" category of EDB.

As an EDB, an IRA beneficiary may choose to begin taking annual RMDs based upon his or her life expectancy determined in the year after death. Unlike the case with the ten-year rule, an EDB must satisfy annual RMDs. Conversely, the EDB could decide to use the ten-year rule, requiring no annual RMDs; the account must be depleted no later than December 31 of the year containing the tenth anniversary of death.

FAQ: I recently learned that I could make a Qualified Charitable Distribution (QCD) from my IRA directly to a charity to satisfy all or part of my required minimum distribution for the year. I took a partial withdrawal from my IRA earlier in the year for $50,000. Can I write a check for that amount to a chosen charity and treat it as a QCD, satisfying my RMD without having to report the withdrawal as income?

Unfortunately, no. A QCD must come from an IRA, payable directly to a qualified charity. Further, the first money withdrawn from an IRA each year is treated as an RMD in any year for which one is due. Therefore, the $50,000 that was already withdrawn will be treated as all or part of this year's RMD. If there is any RMD left over, a QCD can be used for the remainder, up to $100,000. This will help you minimize income tax on that amount and satisfy the remaining RMD up to the limit.

Worth noting is that a QDC may be made from an IRA account beginning at age 70 ½. While an RMD is not due until the year the IRA owner reaches age 72, the QCD, when properly executed, will be tax-free. The benefit of the tax-free nature of the QCD is available regardless of whether a taxpayer itemizes or takes the standard deduction.

FAQ: Is a rollover from my 401(k) account to my IRA counted for the one-rollover-per-twelve-month rule?

No, that won't trigger this rule. The once-per-twelve-month rule applies only to IRA-to-IRA rollovers: distributions and subsequent rollovers between IRAs of all varieties count toward this rule. That includes transactions involving SEP and SIMPLE IRAs as well as traditional IRAs. Roth IRAs also are included in the once-per-12-month rule, but a Roth conversion does not count toward this limit.

Be aware that all of an individual's IRAs are aggregated for this rule. Hypothetically speaking, say James owns three IRAs. He withdrawals $20,000 from IRA 1 and, within 60 days, rolls it into a new IRA #4. For the next twelve months, James may not execute another rollover to or from any of his IRAs. If the twelve-month rule is violated, the ineligible rollovers will be treated as excess contributions, and a penalty may apply if not timely corrected.

In response to this FAQ, the movement of money from a 401(k) to an IRA is a rollover, no matter how you slice it. Because different types of plans are involved, rolling 100% of 401(k) funds directly to an IRA triggers a transaction that will be reported as a rollover on the account owner's tax return. However, no tax will be due, and the twelve-month rule won't apply. The receiving plan will issue an IRS Form 5498 in May of the year following the transaction as a rollover. It is not necessary to include IRS Form 5498 with the taxpayer's return.

Alternatively, the account owner can elect to receive a 401(k) distribution, subject to the mandatory 20% withholding, and roll the remaining 80% of the distribution into an IRA within sixty days. Unless the 20% is replaced with another source of funds by the employee, the 20% that was withheld will be considered a taxable distribution and potentially subject to the 10% early withdrawal tax. Therefore, if the intent is to roll the funds from an employer-sponsored qualified plan, it is advisable to go through the proper process of submitting a rollover request from the IRA carrier to avoid the mandatory withholding requirement that comes with a distribution made payable to the employee.

Regardless of how the money gets from point A (401k) to Point B (IRA), it will not count toward the one-rollover-per-twelve-month rollover.

Considering all the above, trustee-to-trustee transfers between IRAs are limitless and are not reportable on the IRA owner's tax return. This is always the best route to take, when possible.

FAQ: I recently inherited my sister's $150,000 IRA and requested a full withdrawal, so I have the check. Can I roll this money to my own IRA or into an inherited IRA within sixty days to avoid paying taxes on the withdrawal?

Because you're a non-spousal beneficiary, the answer is no. For any beneficiary other than a surviving spouse, there is no sixty-day rollover option for the proceeds of an IRA or a qualified retirement plan account. Any withdrawal becomes completely taxable, including an RMD. Similarly,a non-spousal beneficiary may never mix inherited funds with their own funds, so that tactic also is not an option.

If the beneficiary desires to move the inherited money into an alternate investment, the transaction must always be done as a trustee-to-trustee transfer of the Inherited IRA or inherited qualified plan.

Annuities

FAQ: Are non-qualified annuities subject to the same ten-year rule imposed by the SECURE Act on IRAs and qualified plans for most non-spousal beneficiaries?

Not at all. The ten-year rule affecting many retirement account beneficiaries does not apply to non-qualified annuities held outside of such accounts.

Nevertheless, there seems to be a widespread assumption that the SECURE Act unilaterally imposed the same accelerated ten-year withdrawal rule that now applies to most non-spousal beneficiaries of qualified accounts and IRAs to beneficiaries of non-qualified annuities. In reality, the SECURE Act didn't mention non-qualified annuities. For now, it is business as usual.

What does this mean? Non-spousal beneficiaries of non-qualified annuities still retain the option to stretch post-death distributions over a period based upon their own life expectancy. Those distributions must occur annually, beginning within twelve months of the annuity owner's death. Alternatively, the beneficiary may elect to distribute the entire death benefit within five years of that death.

Estate and trust beneficiaries must distribute the proceeds within five years of the non-qualified annuity owner's death.

In addition, spousal beneficiaries of non-qualified annuities retain the right to elect the spousal continuation option; they also can use a 1035 exchange to replace the contract with another non-qualified annuity. As yet another option, if the surviving spouse is under age 59 ½, they may elect to treat the inherited policy as an Inherited Stretch, so any subsequent distributions of the taxable portion of the annuity would be free of the 10% early withdrawal penalty.

Further, some issuers will accept non-qualified stretch annuity business on behalf of a non-spousal beneficiary by 1035 exchange, while others do not permit such a transaction. Therefore, it is essential to check with the current carrier and the potential new carrier before exploring options to proceed with a post-death 1035 exchange on behalf of a non-spousal beneficiary.

FAQ: What is the tax implication of changing the ownership of a non-qualified annuity to a revocable living trust?

Generally, when the ownership of a non-qualified annuity changes, the taxable portion of the contract is immediately taxable to the existing owner. However, there are limited exceptions and changing the ownership from the owner to a revocable living trust (or vice versa) is among them. Because the trust owner is also the tax-paying agent, merely changing the title to the grantor's revocable trust will not trigger taxation of any gain. The only other instance in which changing ownership will not trigger the taxation of gain is a transfer of ownership between spouses.

If the revocable trust is the annuity beneficiary (which should be the case), the death benefit must be paid out and taxed within five years of death. The ability to stretch post-death distributions over a beneficiary's life expectancy will be lost if the trust inherits the annuity, which should always be considered with this type of planning.

Life Insurance

FAQ: My wife and I are concerned that the federal estate and gift tax exemption amounts may be reduced according to recent news reports, exposing our estate to tax. How can this potential exposure be addressed?

One proven approach is to use assets that might be taxed to purchase life insurance and hold the policy in an irrevocable life insurance trust (ILIT).

Assuming the proper procedures are followed, the policy proceeds will be free of income and estate tax. Those death benefits may be used to pay any resulting estate tax.

The Spousal Lifetime Access Trust (SLAT) has emerged as another planning tool. A SLAT might provide a married couple with access to policy account values for retirement as well as tax-free death benefits. For an ILIT or SLAT or any other type of sophisticated trust, work with an experienced estate planning attorney.

Something to consider is a recent proposal in Congress that would pull a grantor trust back into the estate of the grantor, which would eliminate the benefit of this type of planning. However, as of the date of this writing, this proposal has not made it past the proposal phase, but it is worth monitoring as Congress attempts to shore up the national debt through tax revenue proposals.

If you are concerned about the potential exposure of your estate, gifting the assets before the potential legislative change takes place to lower the exemptions could be an alternative.