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2013 New Roth Conversion Opportunities & Other Retirement Curveballs





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Within Plan Roth Conversions

- Within plan Roth conversions to a designated Roth account are available in:
 - 401(k) plans
 - Governmental 457(b) plans
 - 403(b) plans
- Today, we're going to concentrate on 401(k) plans





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Within Plan Roth 401(k) Conversions - Prior Law

- Amounts eligible – Elective deferrals and safe harbor contributions
- Distribution restriction – Amounts could not be rolled over to a designated Roth account unless they were eligible for a distribution
- Generally, only taxpayers that reached 59½ or separated from service were eligible to roll over elective deferrals





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Within Plan Roth 401(k) Conversions - New Law

- Amounts eligible for conversion
 - Any amount not otherwise distributable under the plan
- All participants must be eligible to make conversion
- Subject to guidance, plan must
 - include designated Roth contribution program
 - be amended by the end of the year in which plan Roth conversion occurs





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Within Plan Roth 401(k) Conversions – More to Know

- Distribution restrictions after the within-plan conversion
- No 10% early withdrawal tax on the within plan conversion
- Conversion in 2013, taxes due for 2013
- How much of conversion is taxable
- Spousal consents
- No recharacterization allowed





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Qualified Roth Distribution

- Made after a 5-taxable-year period
- And is either
 - Made on or after you attain 59½
 - Made after death or disability
- What if I take a nonqualified distribution from my designated Roth account?
- What if I rollover my designated Roth account to a Roth IRA
 - Nonqualified distribution
 - Qualified distribution





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Impact on Unearned Income Medicare Contribution

- UIMC 3.8% tax on the lesser of:
 - Net investment income
 - Modified AGI, reduced by
 - \$250,000 for married filers filing jointly
 - \$125,000 for married filers filing separately
 - \$200,000 for all other filers
- Retirement distributions and Roth conversions
 - Not included in Net Investment Income
 - Generally increase modified AGI
 - May cause Net Investment Income to be subject to UIMC





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UIMC Example

- Net Investment Income is \$10,000
- Married filer
- Example 1: Modified AGI is \$200,000
 - $200,000 - 250,000 < 0$, No UIMC
- Example 2: After a \$100,000 IRA distribution, Modified AGI is \$300,000
 - $300,000 - 250,000 = 50,000$
 - UIMC tax is 3.8% of 10,000





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Maximum Contribution Comparison

Example 2: Maximum contribution based on \$204,000 W-2 comp, owner/employee age 50

Plan Type	Contribution			
	EE	Catch-up	ER	Total
401(k)	\$17,500	\$5,500	\$33,500	\$56,500
SEP	\$ 0	\$ 0	\$51,000	\$51,000
Profit-Sharing	\$ 0	\$ 0	\$51,000	\$51,000





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Roth Solo 401(k) vs The Rest

Example 2: Maximum contribution based on \$204,000 W-2 comp, owner/employee age 50

Plan Type	Contribution			
	Roth 401k	Roth Catch-up	ER	Total
401(k)	\$17,500	\$5,500	\$33,500	\$56,500
SEP	\$ 0	\$ 0	\$51,000	\$51,000
Profit-Sharing	\$ 0	\$ 0	\$51,000	\$51,000





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Required Minimum Distributions

- Age 70 ½ RMD requirement
- Distributions after the death of the account holder
- 50% tax on amounts not withdrawn





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Distributions After Death Retirement Plan or IRA

- Who is a spouse?
- J&S or other annuity
- Distribution options after death
 - Take a lump sum distribution from plan
 - Transfer assets to your own IRA
 - Only available to spouse
 - Transfer assets to an inherited IRA
 - Transfer assets to estate





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Lump Sum Distribution Options

- All the assets are distributed to the beneficiary
- No 10% early distribution tax, even if beneficiary is under 59½
- The distribution is subject to ordinary income tax
- Distribution is subject to mandatory 20% withholding





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Designated Beneficiary is Spouse IRA in Spouse's Name

- Surviving spouse must be sole designated beneficiary
- IRA is treated as your own IRA
- Distributions prior to 59½ are subject to 10% early distribution tax
- IRA is eligible for conversion to Roth IRA
- Deceased account holder's RMD must be made for year of death
- After year of death, RMD based on age of surviving spouse





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Designated Beneficiary is Any Individual - Inherited IRA

- *Jane Doe as beneficiary of John Doe*
- Two payout options:
 - Payments, based on single life expectancy of beneficiary, must begin by end of year following year of death, or
 - All assets must be fully distributed by the end of the fifth year following year of death
- Account holder over 70½





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Account Holder Death No Designated Beneficiary

- What if:
 - designated beneficiary died prior to account holder's death?
 - the beneficiary forms are lost?
- The deceased's account will become a part of the estate
- Estate is not an individual and has different distribution requirements





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Beneficiary Not an Individual - Estate, Charity -

- Account owner dies on or after RBD
 - Account balance can be distributed based on the life expectancy listed for owner's age as of birthday during year of death
- Account owner dies before RBD
 - Entire account balance must be distributed by the end of the fifth year following the year of the owner's death
 - No distribution is required before fifth year





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Designated Beneficiary Dies

- After death of original account holder
 - Beneficiary's beneficiary able to take funds as an inherited IRA
 - Payments must continue based on original beneficiary's life expectancy
 - And so on
- Doris the spouse





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Beneficiary Designations

- No rule against completing a new beneficiary form
- If you have multiple beneficiaries, spell out the percentage for each
- Naming contingent beneficiaries
- Roth conversion? Did you update beneficiary designations?
- Keep a copy of your beneficiary designations in a safe, easy-to-find location





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Longevity Annuities

- Provides an income stream that begins at an advanced age
- Value of qualified longevity annuity excluded from RMD
- Qualified Longevity Annuity
 - If annuity costs $\leq 25\%$ of account balance or, if less, \$100,000, and begins by age 85, it is disregarded in determining RMD





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Social Security Strategies

Benefits of the Delay

- Health, genetics, employment situation
- Type of job
- Benefit grows nearly 8% per year
- Benefit nearly doubles from 62 – 70
- Benefit based on highest 35 years





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Social Security Strategies - Couples -

- Take it based on your spouse
 - Both parties must be NRA
 - Spouse A must begin taking benefit
 - Spouse B takes benefit at 50% of A's
- Take based on your ex-spouse
 - Must have been married 10 years or more
 - Ex does not have to begin benefit
- Spousal benefit at death





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Questions and Resources

- www.irs.gov/retirement
- RetirementPlanQuestions@irs.gov
- 877-829-5500
- Newsletters
- Grab the Money and Run? Retirement Plan Loans and Hardships

