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## Delaying Required IRA Distributions Again Would Largely Help Only The Wealthy

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By Howard Gleckman      Thu, May 27, 2021

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*'The RMD change in the SECURE Act would make it easier for wealthy seniors to pass on retirement plan assets with any tax liability delayed for years,' writes our guest columnist, a senior fellow at the Urban Institute.*

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The House Ways & Means Committee is once again tinkering with the law that requires retirees to take minimum distributions from their individual retirement accounts (IRAs) and 401(k)s. Each time, Congress eases the required minimum distribution (RMD) rules at great cost to the federal government. Yet the beneficiaries would overwhelmingly be wealthy retirees and their future heirs.

The committee bill, approved today, would make two big changes to RMDs. It would allow retirees to wait until age 75 before taking required minimum annual distributions and paying tax on them. Currently, they must begin taking distributions at age 72. And it would make it easier for older adults to avoid taking required distributions by investing their retirement funds in annuities.

The new RMD rules are included in the Securing a Strong Retirement (SECURE) Act of 2021. To be sure, the measure would make some beneficial changes, including provisions that encourage more employers to auto-enroll workers in retirement plans, an important tool to encourage participation. But it also includes some clunkers, and the RMD rules are high on the list.

### **Fiddling**

Congress can't help fiddling with the RMD rules.

In December, 2019, Congress allowed workers to delay taking RMDs from age 70.5 to age 72. Last year, Congress waived minimum distributions entirely in response, it said, to the pandemic. Lawmakers felt it would not be fair to require retirees to take distributions after the stock market plunged in March, 2020. Except, whoops, the S&P index rose 16 percent for the year.

Now SECURE would gradually extend the delay to 75. It would rise to 73 in 2022, then 74 in 2029, and finally 75 in 2032. But don't be surprised if a future Congress accelerates the timetable.

Remember, the purpose of tax-free retirement plans is to help older adults save for their, um, retirement. It was not supposed to be another tool for bequests to family members. RMD rules are intended to make sure that these assets are taxed during a person's expected life. Without the rules, rich retirees could simply stash assets in tax-advantage accounts until they die, then pass them on to heirs.

#### **Not cheap**

Delaying RMDs again would have major consequences, some unintended. And it would not be cheap. At a time when lawmakers say they are worried about growing deficits, delaying RMDs would reduce federal revenue by almost \$7 billion over 10 years. But the real cost would begin once the age phases up to 74 in 2029. At that point, revenue would fall by about \$1.4 billion annually.

But its biggest problem is that delaying RMDs would be so regressive.

In 2018, the roughly 17 percent of taxpayers with adjusted gross incomes of \$100,000-plus took more than half of the \$253 billion in IRA distributions. Those making \$50,000 or less took only about 20 percent.

In 2019, the median retirement account balance was only about \$65,000, according to the latest Federal Reserve's Survey of Consumer Finances. Another survey found that nearly one-third of people in their 60s or older had less than \$100,000 in defined contribution plan assets.

#### **No help to many**

Many low-income retirees with such limited retirement assets already take more than the required minimum annually to pay routine bills. Delaying required distributions would not benefit them in any way.

Keep in mind, as well, the life expectancy for low income people is far lower than for the wealthy. The RMD delay also is of no benefit for those who die before age 73.

It is the same story with enhanced annuities. Retirees with relatively little wealth receive few benefits from these investment. Someone investing that median \$65,000 at age 65 would get an average payout of only about \$250 a month.

### **Unintended losers**

Charities may be unintended losers from these changes.

They benefit from another complicated provision called qualified charitable distributions (QCDs). By contributing required distributions to charity, seniors can avoid tax on mandatory withdrawals. And QCDs have become a popular way for wealthy seniors to donate to charity.

It appears that these gifts fell sharply in 2020, largely in response to the temporary waiver of RMDs. And it would be no surprise if they continue to fall if wealthy seniors can delay distributions until age 75.

Some heirs are required to close, and pay tax on, their inherited IRAs within 10 years, although spouses and minor children are exempt from that requirement. Even for those subject to the 10-year rule, the long deferral can be extremely valuable.

The Biden Administration is proposing a major shift in the tax treatment of assets held outside of retirement accounts by taxing at death unrealized capital gains in excess of \$1 million. By doing so, it would prevent wealthy people from passing on a large share of their wealth tax free.

The RMD change in the SECURE Act, by contrast, would make it easier for wealthy seniors to pass on retirement plan assets with any tax liability delayed for years.

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