Every piece of legislation that's passed in Washington creates both winners and losers. If you're planning to leave an IRA to your kids, you may be one of the losers in the case of the SECURE Act.

Passed in 2019 and taking effect in 2020, the SECURE Act, was aimed at boosting retirement savings—a worthy goal at a time when too few people are saving enough for their later years. But it also killed what were known as stretch IRAs, creating serious consequences for heirs. The SECURE Act didn't ban stretch IRAs for everyone; exceptions exist for spouses, minors, and some disabled individuals. But plenty of families have been affected by the law, and many more will be in the future.

Stretch IRAs, also known as multigenerational IRAs, were an estate planning strategy that allowed the original owner's beneficiaries to inherit a traditional, tax-deferred IRA and take annual required minimum distributions (RMDs) based on their own life expectancy, not the original owner's. RMDs are just what they sound like: The government wants taxes to be paid, and for taxes to be paid, withdrawals must be made. So it requires chunks of money to be withdrawn every year starting at age 73. The stretch strategy was so valuable because it prolonged the tax-deferred growth of the account, often for decades, while limiting the taxes due every year.

Now that stretch IRAs are gone, most non-spouse inheritors must withdraw the entire IRA balance within 10 years. This speeds up tax revenue for the government, but it also means bigger tax bills and less time for IRA money to grow. Adding to the tax pain for heirs is the fact that adult children are often in their peak earning years—and thus in higher tax brackets—at the time they receive an inheritance.

One way that IRA owners can help their heirs out is by converting their traditional IRA to a Roth IRA. The funds in Roth IRAs grow tax-free, and are withdrawn tax-free. Converting an IRA to a Roth does trigger a tax bill, so it's necessary to have cash available to pay it; alternatively, some opt to convert their IRA over two years, thus splitting up the tax hit. The Roth conversion strategy has proven quite popular as a fallback in the wake of the SECURE Act. That testifies to the fact that even with the tax bill, families that make use of it are likely to come out way ahead.

Please don't hesitate to get in touch with us if you'd like to learn more about transferring wealth to the next generation tax-free.