The Pension Digest

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ALSO IN THIS ISSUE –

Collin W. Fritz and Associates, Inc.,
"The Pension Specialists"

IRS Issues 2020 Indexed Amounts for HSAs

The maximum HSA contribution for 2020 is $3,550 for single HDHP coverage and $7,100 for family HDHP coverage. The HSA contribution limits for 2020 are $50 higher for single HDHP coverage and $100 higher for family HDHP coverage.

The minimum annual deductible limits for 2020 also changes. The minimum deductible limit for single coverage for 2020 is $1,400 and the minimum deductible limit for family coverage is $2,800.

The maximum annual out-of-pocket expense limit for single coverage for 2020 increases to $6,900 from $6,750 and the out-of-pocket expense for family coverage increases to $13,800 from $13,500.

On May 28, 2019, the Treasury Department and Internal Revenue Service issued new guidance on the maximum contribution levels for Health Savings Accounts (HSAs) and out-of-pocket spending and deductible limits for High Deductible Health plans (HDHPs) that must be used in conjunction with an HSA. The HSA 2020 limits are set forth in IRS Revenue Procedure 2019-25.

High Deductible Health Plans

HSA Maximum Contribution Limits Under Age 55

	2018	2019	2020	Change
Single HDHP	$3,450	$3,500	$3,550	+ $50
Family HDHP	$6,900	$7,000	$7,100	+ $100

HSA Maximum Contribution Limits Age 55 & Older

	2018	2019	2020	Change
Single HDHP	$4,450	$4,500	$4,550	+ $50
Family HDHP	$7,900	$8,000	$8,100	+ $100

HSA Catch-Up Contributions

	2018	2019	2020	Change
Age 55 and Older	$1,000	$1,000	$1,000	$0

High Deductible Health Plans

	Minimum Annual Deductible			Maximum Annual Out-of-Pocket Expenses		
	2018	2019	2020	2018	2019	2020
Single Coverage	$1,350	$1,350	$1,400	$6,650	$6,750	$6,900
Family Coverage	$2,700	$2,700	$2,800	$13,300	$13,500	$13,800

IRAs Are the Over-Looked Retirement Plan

The U.S. populace should appreciate more their IRA opportunities.

Our federal tax laws have been written to authorize eligible individuals to save and invest for their retirement by making annual IRA contributions and rollover contributions on a tax-deferred and tax preferred basis. One uses his or her IRA to supplement their retirement funds arising from an employer sponsored retirement plan, if any, and Social Security. IRAs allow a person to save for a secure retirement regardless of whether or not an employer sponsors any type of retirement plan, be it a 401(k) plan, defined benefit plan, profit sharing, or other plan.

If an employer does sponsor a retirement plan, a person can benefit by making additional contributions to their IRA.

IRA/SEP/SIMPLE/ROTH/Keogh Statistics – 2016 and 2017

Set forth on the following pages are various IRA statistics. Presumably, your institution wants to increase your IRA deposits. You want to understand who are the most likely current customers and prospective customers who will make these IRA contributions. You want to be ready to assist.

The fair market value of IRAs was 8 trillion dollars ($8,015,374,477,000) on 12/31/16. What's your institution's fair share?

1/2 trillion was contributed to IRAs in 2016.

$445 billion was contributed as rollover or direct rollover contributions in 2016.

The average rollover for 2016 was $92,091.

The average rollover by a person who has MAGI of $100,000- $200,000 was$ 105,578.

The average rollover by a person who has MAGI of $200,000- $500,000 was$ 182,544.

The average rollover by a person who has MAGI of $500,000- $1,000,000 is $258,191.

65.4 billion was contributed as annual contributions to IRAs for 2016.

22.2 billion was contributed to Roth IRAs. An average of $3,441 per person.

18.2 billion was contributed to traditional IRAs. An average of $4,148 per person.

14.9 billion was contributed to SEP IRAs. An average of $13,669 per person.

10.1 was contributed to SIMPLE IRAs. An average of $5,341 per person.

The average annual contribution made by a self-employed person to their SEP IRA, SIMPLE IRA or "Keogh" Plan was $24,025 for 2016.

As one expects, those individuals with higher incomes on average make larger annual contributions and rollover contributions.

When the equity market is volatile many individuals will want to move their IRA and pension funds to a FDIC insured deposit instrument where their principal is guaranteed and not subject to investment loss. This is especially true for rollovers and Roth IRAs.

The following pages should be reviewed to assist you in developing your marketing plan for increasing your IRA deposits and other pension deposits for small businesses.

2016 IRA Statistics

The total number of taxpayers filing a return for 2016 was 204.4 million (204,315,356).

58.9 million individuals have at least one of the four types of IRAs. This is about 29%.

8 Trillion are within the four types of IRAs ($8,015,374,479,000).

46.7 million individuals have a traditional IRA and the average balance is $146,135 since there is 6.8 trillion dollars in traditional IRAs.

19 .9 million individuals have a Roth IRA and the average balance is $35,067 since there is 697 billion dollars in Roth IRAs.

3.1 million individuals have a SEP-IRA and the average balance is $120,437 since there is 382 billion dollars in SEP-IRAs.

2.9 million individuals have a SIMPLE IRA and the average balance is $38,000 since there is 112 billion dollars in SIMPLE IRAs.

There are two primary types of IRA contributions - rollovers and annual (sometimes called regular) contributions Both are important, but rollover contributions are much larger $444 billion versus $65.4 billion) and consequently are more important and will be discussed first.

Rollovers into IRAs

Rollover Chart Summary:

Size of AGI	Number of Taxpayers	Rollover Amount	Average
No MAGI	44,692	$3,587,892,000	$80,280
$1 -$19,999	343,938	$13,332,845,000	$38,765
$20,000 - $29,999	270,295	$8,493,480,000	$31,423
$30,000 - $39,999	289,176	$12,731,624,000	$44,027
$40,000 - $49,999	319,822	$15,215,472,000	$47,575
$50,000 - $74,999	724,141	$39,937,592,000	$55,152
$75,000 - $99,999	641,291	$47,052,829,000	$73,372
$100,000-$199,999	1454296	$153,541,120,000	$105,578
$200,000 - $499,999	600,322	$109,585,449,000	$182,544
$500,000 - $999,999	96,546	$24,927,336,000	$258,191
$1,000,000 or more	44,502	$16,305,847,000	$366,407
Totals:	**4,829,021**	**$444,711,486,000**	**$92,091**

CWF Observations

1. Rollovers of $445 billion were made in 2016 into IRAs.
2. 4.8 million taxpayers made a rollover.
3. The average rollover of all taxpayers was $92,091
4. Taxpayers with MAGI of less than $40,000 was $38,206 but those taxpayers with no MAGI were excluded.
5. Taxpayers with income of $100,000 - $200,000 rolled over $153 billion or an average of $105,578.
6. Taxpayers with MAGI above $200,000 had rollovers averaging $202,703.
7. Taxpayers with MAGI exceeding $1,000,000 had rollovers averaging $366,407.

Annual IRA Contributions for 2016 -Traditional, SEP, SIMPLE and Roth

157.9 million individuals were eligible to make one or more of the four types of IRA Contributions in 2016 (157,857,106).

13.2 million taxpayers made or received one or more of the contribution types.

6.5 million made a Roth IRA contribution.

4.4 million made a Traditional IRA contribution.

1.9 million made a SIMPLE IRA contribution.

1.1 million made a SEP-IRA Contribution

65.4 billion ($65,436,648,000) was contributed to IRAs in 2016.

22.2 billion contributed to Roth IRAs ($22,209,627) or $3,441 per person.

18.2 billion contributed to Traditional IRAs ($18,252,008) or $4,184 per person.

14.9 billion contributed to SEP-IRAs ($14,904,389) or $13,669 per person.

10.1 billion contributed to SIMPLE IRAs ($10,070,619) or $5,341 per person.

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CWF Observations

1. Roth IRAs lead - largest number of contributors and largest amount contributed. Traditional IRAs are both second in both the number of contributors and by amount contributed.

2. SEP IRAs have the fewest number of contributors, but the amount of 14.9 billion is a close third to the 18.2 billion being contributed to Traditional IRAs.

3. IRAs are being under-used. Annual IRA contributions are being made only 8.3% (13.2 million out of 157.9 million taxpayers) who are eligible to make an IRA Contribution. People are missing opportunities to make IRA contributions. Higher-income individuals need to be informed why it is in their best interest to make non-deductible Traditional IRA contributions and why it is well worth their time and effort to do so.

Annual Traditional IRA Contributions for 2016

4.4 million is the total number of Traditional IRA contributors ($4,362,120).

The total contributions were 18.2 billion ($18,252,008,000).

3.2 million claimed a tax deduction for contributions totaling $13.3 billion. The average deductible contribution was $4,156.

3.2 million is an extremely small considering that W-2 information shows that 157.9 million individuals are eligible to make an IRA contribution and that only 74.1 million are active participants in a 401(k) or other employer sponsored retirement plan. We at CWF estimate that only 3.2 million out of 74.1 million eligible taxpayers are making deductible contributions.

1.2 million individuals made non-deductible IRA contributions. They contributed 4.9 billion. The average non-deductible contribution was $4,083.

CWF Observations

1. 157.9 million individuals are eligible to make a non-deductible IRA contribution, but only 1.2 million do so.

2. There were $4.9 billion nondeductible contributions out of total contributions of 18.2 billion.

Annual SEP-IRA Contributions for 2016

There were 1.1 million SEP-IRA contributors (1,090,377) with total contributions of $14.9 billion ($14,904,389,000).

The average contribution was $13,545.

There were 446,572 self-employed individuals who claimed tax deductions totaling $8.2 billion ($8,251,763,000).

The average deductible SEP-IRA contribution was $18,478.

There were 643,805 individuals who received a SEP-IRA contribution from their employer. The total of such nondeductible contributions was $6.6 billion ($6,652,626,000). The average non-deductible SEP-IRA contribution was $10,333.

CWF Observations

1. Owners (446,572) contributed $8.2 billion for themselves. The average contribution was $18,478.

2. Owners contributed 6.6 billion for their employees (643,805). The average contribution was $10,333.

Annual SIMPLE IRA Contributions for 2016

Shows that 1.9 million (1,885,572) had SIMPLE contributions totaling $10.1 billion ($10,070,619,000). The average contribution was $5,678.

There were 118,036 self-employed individuals who claimed tax deductions totaling $1.5 billion ($1,451,572,000). The average deductible SIMPLE IRA contribution was $12,284.

There were 1,767,506 individuals who received a SIMPLE IRA contribution from their employer. The total of such non-deductible contributions was 8.6 billion ($8,619,047,000). The average non-deductible SIMPLE IRA contribution was $4,876.

CWF Observations

1. There were only 118,036 SIMPLE contributions made by self-employed owners. Their average contribution was $12,284.

2. 1,767,506 individuals (not self-employed owners) made SIMPLE contributions. Their average contribution was $4,876.

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Annual Roth IRA Contributions for 2016

There were 6.5 million (6,454,420) had Roth IRA contributions in 2016 totaling $22.2 billion ($22,209,627,000). The

average contribution was $3,441 .

CWF Observations

2. 6.5 million made a Roth IRA contribution

3. CWF estimates that at least 85% of the 157.9 million individuals or 125 million, but only 6.5 million do.

Roth IRA Conversions

There were 559,161 taxpayers who did a Roth IRA conversion in 2016 totaling 9.1 billion ($9,136,651,000) converted.

Roth IRA Conversion Chart:

Size of AGI	Number of Taxpayers	Rollover Amount	Average
No MAGI	2,393	$225,056,000	$94,048
$1 -$19,999	23,050	$172,388,000	$7,479
$20,000 - $29,999	18,971	$380,547,000	$20,059
$30,000 - $39,999	15,909	$171,522,000	$10,781
$40,000 - $49,999	17,631	$230,453,000	$13,071
$50,000 - $74,999	35,171	$636,105,000	$18,086
$75,000 - $99,999	41,789	$731,379,000	$17,501
$100,000-$199,999	141,579	$2,493,148,000	$17,610
$200,000 - $499,999	176,614	$2,390,662,000	$13,536
$500,000 - $999,999	58,271	$875,264,000	$15,021
$1,000,000 or more	27,785	$830,127,000	$29,877
Totals:	**559,163**	**$9,136,651,000**	**$16,340**

CWF Observations

1. Roth IRA conversions made by 559,161 out of 58.9 million who had a traditional IRA, SEP-IRA, SIMPLE-IRA. This is less than 1%.

2. The amount of Roth IRA conversion contributions was 9,136,651,000. The amount eligible to be converted was $697,102,514,000 or 1.31%.

4. The conversion amounts average approximately $16,340 regardless of income with two exceptions. Individuals with no MAGI (presumably had some tax losses) on average had a conversion of $94,048 (to be offset by the loss) and those with income of 1 million or more had an average conversion of $29,877.

Topic - Fair Market Value of IRAs as of 12/31 /16

Size of AGI	Number of Taxpayers	FMV	Average
No MAGI	738,031	$80,102,907,000	$108,536
$1 -$19,999	5,690,961	$376,615,633,000	$66,178
$20,000 - $29,999	3,551,133	$261,200,335,000	$73,554
$30,000 - $39,999	3,693,018	$282,855,966,000	$76,592
$40,000 - $49,999	3,589,430	$296,913,800,000	$82,719
$50,000 - $74,999	8,900,069	$881,729,001,000	$99,070
$75,000 - $99,999	8,061,553	$947,789,039,000	$117,569
$100,000 - $199,999	16,401,970	$2,576,405,984,000	$157,080
$200,000 - $499,999	6,540,032	$1,648,311,339,000	$252,034
$500,000 - $999,999	1,201,047	$416,237,249,000	$346,562
$1,000,000 or more	562,861	$247,213,144,000	$439,208
Totals:	**58,930,105**	**$8,015,374,477,000**	**$136,015**

CWF Observations

1. The fact that 58.9 million taxpayers have one or more of the four types of IRAs shows their importance,

if for nothing else to accept rollover contributions.

2. 5.1 trillion of IRA assets are "owned" by individuals with incomes exceeding $100,000. Most likely the tax rates applying to their distributions will be some 25%, but most at 39.6%. With respect to the 5.1 trillion, assuming an average tax rate of 30% means the IRS some day will collect $1.53 trillion of federal income taxes.

The Pension Digest

Preliminary Tax Data – IRA/Pension Statistics for 2017

Tax statistics may be boring, but they are important form many reasons. IRAs and 401(k) plans are tax preferred plans. Individuals receive tax benefits when they make contributions to such plans. The U.S. government is interested because the general tax rule is, when a person takes a distribution he or she must include that distribution in their income and pay the marginal tax rate applying to him or her.

$742 billion was withdrawn from 401(k) plans and other pension plans in 2017. $286 billion was withdrawn from traditional IRAs. One can assume taxes of 20% - 30% were paid on these distributions.

The statistics below make clear an IRA and Keogh custodian wants to understand who its high income clients are. $22.15 billion was contributed to SEP/SIMPLE/Keogh plans by self-employed individuals and 77% came from individuals with incomes of $100,000 or more. The average contribution was $24,025.

IRA contributions for 2017 totaled $13.62 billion with over 60% coming from individuals with modified adjusted gross incomes in the range of $50,000 - $200,000.

CHART A — SEP/SIMPLE/Profit Sharing Chart

Year	Contribution Amount	Number of Contributors	Average Contribution
2003	$16.9 billion	1.19 million	$14,202
2004	$18.0 billion	1.17 million	$15,385
2005	$19.4 billion	1.20 million	$16,202
2006	$20.2 billion	1.18 million	$17,200
2007	$20.1 billion	1.14 million	$17,720
2008	$18.5 billion	.97 million	$19,072
2009	$17.5 billion	.88 million	$19,780
2010	$17.2 billion	.87 million	$19,776
2011	$17.6 billion	.87 million	$20,256
2012	$19.2 billion	.88 million	$21,843
2013	$20.2 billion	.90 million	$22,364
2014	$20.8 billion	.93 million	$22,438
2015	$22.2 billion	.95 million	$23,234
2016	$22.15 billion	.93 million	$22,798
2017	$22.15 billion	.93 million	$24,025

CHART B — Traditional IRA Chart

Year	Contribution Amount	Number of Contributors	Average Contribution
2003	$10.16 billion	3.46 million	$2,936
2004	$10.20 billion	3.38 million	$3,018
2005	$12.21 billion	3.29 million	$3,707
2006	$12.77 billion	3.29 million	$3,885
2007	$13.19 billion	3.37 million	$3,914
2008	$11.91 billion	2.78 million	$4,284
2009	$11.49 billion	2.64 million	$4,358
2010	$11.71 billion	2.63 million	$4,449
2011	$11.26 billion	2.62 million	$4,302
2012	$12.05 billion	2.61 million	$4,608
2013	$13.30 billion	2.77 million	$4,797
2014	$13.44 billion	2.75 million	$4,896
2015	$13.25 billion	2.67 million	$4,960
2016	$13.62 billion	2.69 million	$5,056
2017	$13.63 billion	2.67 million	$5,106

Deductible Traditional IRA Contributions

The number of tax returns claiming a deduction for a traditional IRA contribution increased slightly.

The amount contributed to traditional IRAs increased to 13.62 billion from 13.02 billion. This was a 0.1% increase.

What was the AGI of those who made traditional IRA contributions for 2017?

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	92,970	291,373	480,175	908,797	720,150	175,986	2,669,453
% of Total Returns	3.48%	10.91%	17.99%	34.04%	26.98%	6.60%	100%
Contribution Amt. (in thousands)	$314,652	$960,717	$2,047,105	$4,526,189	$4,110,144	$1,670,751	$13,629,553
% of Total Contr.	2.31%	7.05%	15.02%	33.02%	30.16%	12.26%	100%
Avg. Contr. Amt.	$3,384	$3,297	$4,263	$4,980	$5,707	$9,494	$5,106

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CWF Observations

1. The average IRA contribution, per return, was $5,106 for 2017.
2. 34.04% of all IRA contributions came from individuals with AGI between $50,000-$99,999.
3. 67.62% of all IRA contributions for 2017 came from individuals with AGI of $50,000 or More.

IRA and SEP/SIMPLE/Keogh Deductible Contributions

1. The number of tax returns claiming a deduction for a self-employed person's contributions to a profit sharing, SEP or SIMPLE increased to .94 million from .93 million.
2. The amount contributed by self-employed individuals to a profit sharing plan, SEP or SIMPLE increased to 22.7 billion from 22.2 billion.

What was the adjusted gross income (AGI) of those who made SEP/SIMPLE/Keogh contributions?

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	17,832	15,332	43,913	138,409	255,385	475,543	946,415
% of Total Returns	1.88%	1.62%	4.65%	14.62%	26.98%	50.25%	100%
Contribution Amt. (in thousands)	$127,625	$108,942	$295,500	$1,614,900	$4,093,655	$16,496,626	$22,737,248
% of Total Contr.	.56%	.48%	1.31%	7.10%	18.00%	72.55%	100%
Avg. Contr. Amt.	$7,157	$7,106	$6,726	$11,668	$16,029	$34,690	$24,025

CWF Observations on SEP/SIMPLE/Keogh Contributions for 2017

1. The average contribution per return is $24,025 for 2017.
2. 72.55% of contributions ($16.5 billion) come from individuals with AGI of $200,000 or more.
3. 90.55% of contributions (20.6 billion) come from individuals with AGI of more than $100,000.
4. The average contribution is $34,690 for those with MAGI of $200,000 or more.

Taxable IRA Distributions for 2017

(Based on AGI)

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	1,784,825	1,862,065	2,059,400	4,547,600	3,468,307	1,466,986	15,189,183
% of Total Returns	11.75%	12.26%	13.59%	29.94%	22.83%	9.66%	100%
Distribution Amt. (in thousands)	$10,518,818	$15,924,295	$22,253,943	$71,774,836	$94,826,052	$70,722,639	$286,020,583
% of Total Distrib.	3.68%	5.57%	7.77%	25.10%	33.15%	24.73%	100%
Avg. Distrib. Amt.	$5,893	$8,552	$10,806	$15,783	$27,341	$48,209	$18,831

CWF Observations

1. 14.40 million returns reported a taxable IRA distribution.
2. There were taxable IRA distributions of 286 billion.
3. The average distribution was $18,831.
4. As one would expect, the average distribution was larger for those with higher incomes.

Pension Distributions for 2017

(Based on AGI)

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	3,591,510	4,268,540	4,400,423	8,647,641	5,805,048	1,825,211	28,538,372
% of Total Returns	12.58%	14.96%	15.42%	30.30%	20.34%	6.40%	100%
Distribution Amt. (in thousands)	$25,342,032	$53,486,805	$78,642,707	$236,532,916	$242,267,569	$105,979,169	$742,351,197
% of Total Distrib.	3.42%	7.20%	10.60%	31.86%	32.64%	14.28%	100%
Avg. Distrib. Amt.	$7,070	$12,530	$17,883	$27,352	$41,734	$58,064	$26,012

Observations

1. 28.05 million returns reported a taxable pension distribution.
2. There were taxable pension distributions of 742.3 billion.
3. The average distribution was $26,012.
4. As one would expect, the average distribution was larger for those with higher incomes.
5. 78.78% of the taxable distributions ($585 billion) arose from those returns showing AGI of $50,000 or more.

The IRS has recently issued the above discussed preliminary tax data for tax year 2017. These statistics are preliminary statistics in the sense they were devised by an IRS economist using a sample of tax returns to make estimates. The number of filed returns increased from 150.3 million to 153.0 million. Taxable income increased to $7.9 trillion from $7.3 trillion. An increase of 8.4%.

We at CWF strongly believe individuals with higher incomes should be making more non-deductible contributions so one day they may convert them into their Roth IRA. More people are going to want to maximize their Roth IRA contributions.

The Pension Digest

Preliminary HSA Tax Data for 2017

The IRS has estimated that there were 1,010,121 taxpayers who made contributions to HSAs and who claimed tax deductions totalling 4.1 billion dollars for 2017. This means the average contribution per tax return was $3,793.

With respect to tax year 2016 the IRS had estimated that there were 1.12 million taxpayers who made contributions to HSAs and who claimed tax deduction totalling 3.45 billion dollars. The average contribution per tax return was $3,103.

Since this data comes from the 1040 tax returns it does not indicate any data for contributions made by corporate employers or deductions by corporations for having made HSA contributions.

For 2017, the maximum HSA contribution was $2,700 for self-only coverage and $5,450 for family coverage.

Individuals age 55 or older were eligible to make an additional catch-up contribution of $700.

HSA Contributions for 2018
What was the AGI of those who made HSA contributions?

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	85,271	163,977	220,363	316,917	217,849	85,743	1,090,121
% of Total Returns	7.82%	15.04%	20.21%	29.07%	20.00%	7.86%	100%
Contribution Amt. **(in thousands)**	$957,296	$325,359	$498,035	$894,225	$839,241	$621,042	$4,135,198
% of Total Contr.	23.16%	7.87%	12.04%	21.62%	20.29%	15.02%	100%
Avg. Contr. Amt.	$11,226	$1,984	$2,260	$2,822	$3,852	$7,243	$3,793

CWF Observations

1. The average return showed a contribution of $3,793.
2. 56.9% of the contributions came from individuals with $50,000 or more of AGI.
3. The largest average contribution was from the $200,000 and over group and it was $7,243 per return. The next largest average contribution was $2,628 and it came from the $100,000 to $199,99 group.
4. The group of $50,000 to $100,000 made the largest contributions of $316.9 million. The $100,000 to $199,999 group and the $200,000 and over group also contributed more than $300 million as a group

HSA Deductions for 2017 (Based on AGI)
What was the AGI of those who made HSA contributions?

	Under $15,000	$15,001 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 to $199,999	$200,000 Or more	Total
Number of Returns	39,806	122,404	220,232	543,686	522,163	399,378	1,847,669
% of Total Returns	2.15%	6.62%	11.92%	29.43%	28.26%	21.62%	100%
Deduction Amt. **(in thousands)**	$99,128	$165,086	$370,522	$1,229,944	$1,561,610	$1,828,071	$5,254,362
% of Total Deduct.	1.89%	3.14%	7.05%	23.41%	29.72%	34.79%	100%
Avg. Deduct. Amt.	$2,490	$1,348	$1,682	$2,262	$2,991	$4,577	$2,844

Observations

1. The average HSA deduction for 2017 was $2,844.
2. 79.31% of HSA (1.46b) have AGI greater than $50,000.

Email Guidance – SEP-IRA Contribution and a Roth IRA Contribution

Q1. I have a lady calling me asking to establish a 2018 SEP plan Roth IRA. Is that possible? I thought SEPs were only traditional.

A1. You are correct. There is no such thing as a SEP plan Roth IRA.

Why does she have the idea that there is such a thing?

What amount is to be contributed?

Does she work for an employer which sponsors a SEP plan? If so, you are correct. A SEP-IRA is a traditional IRA to which an employer has made a SEP-IRA contribution.

Does she own her own business?

A person must have compensation and/or net earnings to make these two types of IRA contributions. A person could make a SEP-IRA contribution and a Roth IRA contribution.

A person could make a SEP-IRA contribution and then convert some or all of it to be a Roth IRA She would have to include in her income the amount she converts.

Email Guidance – QCDs and Donor Advised Funds

Q-1. I want to verify that Qualified Charitable Distributions (QCD) still specifically exclude contributions to a Donor Advised Fund held at a community foundation as qualifying for the rules under the QCD law.

Q-2. Code section 408(d)(8) sets forth the rules for a QCD. The general tax rule is that a QCD can't be made to a donor advised fund as defined in Code section 4966(d)(2). However, Code section 4966(d)(2)(B) sets forth certain exceptions so that a fund will not be a donor advised fund if the requirements for an exception are met. It appears a QCD could be made to such a fund.

A determination must be made whether the Donor Advised Fund held at the community foundation either meets the requirements for the exception or does not meet the requirements for the exception. This tax decision must be made by the individual and their tax adviser.

Email Guidance – An HSA is a Lifetime Account

Q1. When a person turns 65 and goes on Medicare, is it best to close the account and issue a check or transfer the funds to a regular account? Can they keep the HSA and just no longer make contributions?

A1. Your last statement is the better approach. An HSA is meant to be a life long account. The fact that a person can no longer make annual contributions is not a good reason to close their HSA.

For example, assume Mary has $15,000 in her HSA when she enrolls in Medicare. Between ages 65-90 she will have additional medical expenses some of which will not be paid by Medicare. She will benefit by leaving the funds within the HSA because she at some point will have medical expenses not covered by Medicare.

Any distribution used to pay a qualified medical expenses will be tax free.

A person age 65 or older who takes a distribution from their HSA and does not use it to pay a qualified medical expense must include such amount in their taxable income and pay tax their marginal tax rate.

Email Guidance – An IRA Beneficiary Wanting to Disclaim

Q1. We have an IRA Customer who recently passed away. Wife and son are listed as beneficiaries. Wife is deceased also. The son wants to relinquish his rights to his two sisters. The family is in the processing of setting up an estate. How do we handle this situation? Do we wait on instructions from the estate or what type of documents are required to show rights have been relinquished?

A1. I will discuss, but the son must discuss with his legal adviser. The son does not want the IRA funds to go to just himself. He is considering or has decided to disclaim the inherited IRA funds. A simpler and more practical approach might be, he takes IRA distributions over one or more years, pays the income tax related to such distributions and then gives the net amount to his two sisters. But he does have the right to disclaim the inherited IRA. ·

A person's IRA and a person's estate are two separate legal and tax entities. However, they are related in the sense that a person has died and the IRA assets will transferred to one or more beneficiaries and the person's estate assets will be transferred to one or more beneficiaries.

It is possible that the IRA owner will designate his or her estate to be their IRA beneficiary. There are federal income tax reasons why a person generally does not designate their estate to be the beneficiary of their IRA. IRA funds are generally tax deferred funds and the beneficiary generally must include any withdrawal in income and pay the applicable tax. The federal income tax rates applying to an estate are often much high than the tax rates applying to an individual. When the estate is the beneficiary the estate will generally need to include any IRA distributions in its income for income tax purposes. This income to the estate possibly can be offset by the estate being able to claim as a tax deduction the funeral expenses. There are required distribution (RMD) rules applying to inherited IRAs. An estate is required to withdraw a larger required distribution than when an individual is the beneficiary.

The son as an IRA beneficiary does have the right to disclaim his IRA beneficiary interest. I realize your bank no longer uses our forms. Prior to 2018 we at CWF believed it was best if the beneficiary was informed that he or she would need to have their attorney prepare the disclaimer. We still believe this but we have created a form which the beneficiary may use to disclaim their inherited portion. We created this form to assist the IRA custodian assist its customer.

Under most states laws, the effect of a disclaimer is that the beneficiary (i.e. the son) is treated as if he too had predeceased the IRA owner. Most IRA plan agreement forms provide that if there is no designated beneficiary alive when the IRA owner dies, then the funds are to be paid to the estate. <u>The beneficiary who disclaims does not have the right to say who will get the IRA funds</u>. You as the IRA custodian must review the decedent's IRA plan agreement to determine who will now be the "default" beneficiary.

When the estate is the beneficiary, you will establish the inherited IRA using the title, "the Jane Doe estate as beneficiary of Jane Doe's estate". Distributions will be made to the personal representative of the estate. The estate may close the inherited IRA immediately or RMD distributions could be made to the estate over a number of years.

Again, the son must discuss with his attorney.

IRS Guidance – No Clawback of Gift Tax Exemption For Gifts Made Prior to January 1, 2026

Often IRAs and pension benefits comprise a significant portion of a person's estate.

The maximum estate tax rate is 40% for 2018 and thereafter.

The Tax Cuts and Jobs Act of 2017 (TCJA) increased the exclusion amount applying to a decedent's estate to $10 million from $5 million for estates of decedents dying after December 31, 2017 and before January 1, 2026. These exclusion amounts are indexed for inflation after 2011.

Therefore, the exclusion limit for 2017 was $5.49 million, $11,180,000 for 2018 and $11,400,000 for 2019.

In computing the amount of federal gift tax to be paid on a gift or the amount of federal estate tax to be paid at death, the gift and estate tax provisions require applying a unified tax rate schedule to the person's aggregated or cumulative total of taxable gifts and his or her taxable estate after his or her death to arrive at a net tentative tax. This net tentative tax is reduced by a credit equal to the applicable exclusion amount.

Commencing on January 1, 2026, the exclusion amount reverts to $5 million as indexed. It is estimated that this indexed amount will be $6,260,000.

Estate tax law now authorizes the estate of a decedent dying on or after January 1, 2011 to transfer to the surviving spouse any portion of the unused exclusion amount if an election is timely made. Thus, there will be no federal estate tax for decedents dying in 2019 as long as the married couples estates are less than $22.8 million and $11.4 million for a single person.

The tax issue, what happens if a single person made taxable gifts of $8 million in 2019 when the exclusion amount is $11.4 million, but then dies in 2027 when the exclusion amount has reverted to be $5 million? Will the person owe a net tentative tax due now that the exclusion amount has been decreased?

The IRS has indicated there will be no net tentative tax is this situation. The IRS has issued a proposed regulation which provides that the credit to be claimed on the estate's return is the larger of the exclusion amount as in effect on the decedent's date of death or the exclusion amount to be used to determine the gift tax payable. The proposed regulation means the decedent's estate is not inappropriately taxed with respect to gifts made when exclusion amount was greater.

IRS Guidance – IRS Reporting for Inherited IRA

Q1. We are working on Form 5498s and have a question What would be the proper coding to receipt in the inherited IRA from the decedent's IRA so that it would reflect properly on Form 5498?

If we use IRA Transfer on our accounting system, it will be not reported on the 5498. Should we use IRA contribution or rollover?

A1. When there is a non-spouse beneficiary, moving IRA funds from the decedent's IRA to the inherited IRA is to be accomplished by a non-reportable transfer distribution/contribution.

The IRA custodian sets up the inherited IRA with the titling, "Jane Doe as beneficiary of John Doe's traditional IRA". As long as such inherited IRS is not closed before December 31, a Form 5498 must be prepared using the special titling. The IRS is informed of the existence of the beneficiary's inherited IRA. The IRS is not informed of the transfer. The special titling indicates the former IRA holder has died.

The only box on the beneficiary's Form 5498 to be completed will be the FMV box 5. There is one exception, if the inherited IRA holds any hard to value investments, boxes 15a and 15b must be completed.

Because the funds were transferred out of the decedent's IRA, no Form 1099-R is prepared to report the withdrawal of the IRA funds from the decedent's IRA. Sometimes IRA workers incorrectly believe a Form 1099-R is to be prepared with a reason code 4 to show the IRA owner died. This is not the IRS' procedure.