

The New SECURE Act

By Scott Kaup

The Setting Every Community Up for Retirement Enhancement or SECURE Act is effective January 1, 2020. This Act represents the most significant legislative change to the United States retirement system in over a decade. Here is what the bill includes:

1. Required Minimum Distribution (RMD) age increases to 72

- a. The 70 ½ age for taking an RMD is raised to age 72 for individuals who attain age 70 ½ after 2019. So, an individual who attains age 70 ½ in 2020 will not be required to take an RMD until he or she turns age 72. With RMDs not starting until 72, that could give you two more years to convert taxable IRAs to non-taxable Roth IRAs at lower tax rates today than you could expect in the future.

2. Stretch IRA restrictions

- a. The Act provides that, upon the death of an IRA owner or 401(k) participant, any non-spousal beneficiary is required to draw down his or her entire inherited interest within 10 years. There are no minimum distributions within those 10 years, but the entire balance must be distributed after the 10th year. The 10-year rule does not apply to any portion payable to a surviving spouse, who would be allowed to “stretch” the post-death distributions over life or a period not exceeding their life expectancy. There are also different rules for minors and disabled beneficiaries. These restrictions apply to deaths after 2019 and makes it a good time to review your beneficiaries on your retirement accounts. Anyone with a trust as the beneficiary of an IRA should immediately review the trust’s language to see if it still aligns with his or her intended goals.

3. Post-70 ½ contributions to Traditional IRAs

- a. As long as the owner has earned income in excess of the contribution amount, he or she is now allowed to make traditional IRA contributions after 70 ½. The age restriction will still apply to 2019 tax year contributions made on or before April 15, 2020, but not to 2020 tax year contributions. This will benefit those still working in their 70s to be able to keep putting away money into retirement. The maximum contribution for 2020 is \$7,000.

4. Annuities in 401(k) plans

- a. The SECURE Act allows employers to offer annuities as investment options within 401(k) plans. Annuities can provide a guaranteed income over the course of a retiree’s lifetime which is especially beneficial considering so many Americans are living longer lives.

5. Penalty-free distributions up on the birth or adoption of a child

- a. Allows a 401(k) participant or IRA owner to withdraw up to \$5,000 penalty-free upon the birth or adoption of a child.

6. Easier for small businesses to set up retirement plans and auto-enrollment tax credit

- a. The bill widens access to multiple employer plans for small businesses. Employers no longer have to share a common characteristic which will give them access to more features at affordable prices. Employer-sponsored plans would also be available to long-term part-time workers. Under the SECURE Act, small employers will get a \$500 maximum tax credit to offset the costs of starting a 401(k) or Simple IRA plan with auto-enrollment of workers into their retirement plans.

7. Allows the use of 529 college savings accounts for qualified student loan repayments up to \$10,000 annually

- a. This is a good option for parents who may have funds remaining in an educational savings account and want to help a child who has already graduated.

Many of these changes require proactive planning. Talk to us about your financial and retirement situation today!

Thanks,

Scott Kaup
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