December 23, 2019

Back in our July eNewsletter, we touched on a piece of government legislation that sailed through the House of Representatives early in the summer on a bipartisan vote of 417-3. From there, however, the bill languished in the Senate, as it appeared destined not to pass in 2019. Last week, the Setting Every Community Up for Retirement Enhancement act was attached to a bill to fund the government and was handily passed by both houses of Congress and signed by the President.

29 separate provisions in the SECURE Act provide some much-needed modernization to retirement plan legislation and are largely focused on making it easier for workers to save for retirement. Much of the bill makes it simpler for businesses to create workplace retirement plans, and opens those plans up to more participants.

There are abundant changes to individual account holders under the act as well. Here are 5 changes in SECURE that are likely to impact the way we navigate personal financial and estate planning:

1 -- Required Beginning Date Moved from Age 70 1/2 to 72
Age 70 1/2 has been the age at which you are required to begin drawing a defined amount from any tax-deferred retirement plans (IRA, 401k, 403b, etc.). Under SECURE, the need to take a Required Minimum Distribution (RMD) has been pushed out to age 72. This change allows the required beginning date to move more in-line with the growing longevity of Americans, allowing funds to grow tax-deferred for an additional year and half.

2 -- No Age Restrictions on IRA Contributions
Under previous law, the ability to contribute to an IRA after required beginning date was prohibited. Building on the longevity thoughts in point one, taxpayers with earned income can make Traditional IRA contributions (only Roth was allowed in the past). This will allow those who continue to work to have the ability to continue to save.

3 -- "Stretch" Provision for Inherited IRAs Virtually Eliminated
Perhaps the largest impact to planning comes in this provision. There is NO CHANGE to spousal inherited tax-preferenced retirement accounts. IRAs, 401ks, & other deferred accounts inherited by a spouse can continue to be combined with their own and treated as such. Previous law allowed non-spouse beneficiaries to draw out these inherited accounts as long as over their entire life via an annual Required Minimum Distribution. Under SECURE, inherited funds will need to be completely withdrawn from inherited IRAs and retirement plans within 10 years with payment of the resulting tax liability. This will create an enormous planning need as the tax impact of these withdrawals could be immense. In 2017, the total assets of traditional IRAs alone topped 7.85 trillion.

Exceptions to the 10-year deadline which still allow a non-spouse beneficiary to withdraw over their lifetime include if the beneficiary is a minor, disabled, chronically ill or not more than 10 years younger than the deceased IRA owner.

4 -- Penalty-Free Access to Retirement Accounts for Birth or Adoption of Child.
Penalty-free access to retirement funds before age 59 1/2 is strictly limited to unreimbursed medical expenses (above certain thresholds), qualified higher education expenses (i.e., college), first home purchase (up to $10,000), & certain expenses for qualified military reservists. Under SECURE, an additional provision has been created to allow for a $5000 withdrawal for the birth or adoption of a child. Married couples, can each withdraw $5,000 from his or her own account, penalty-free.

5 -- 529 Plans Can Be Used to Pay Student Debt
529 college savings plans provide tax-free growth when proceeds are applied to qualified educational expenses. A provision in the SECURE Act allows up to a $10,000 withdrawal to pay off student debt. The $10,000 is a lifetime amount and NOT an annual limit, however additional $10,000 withdrawals can be used to pay off student debt for each of the 529 plan beneficiaries' siblings. There is some complication in making this happen as the beneficiary on the plan would likely need to be changed.

As the finer points of this new retirement policy become clearer, you can expect more details on the SECURE Act. With 29 provisions to unpack, there is likely to be further consideration to be made in personal financial planning. We plan to offer some educational opportunities in the coming months, and we will certainly address pertinent issues with you directly at your next review. In the meantime, be sure to contact us with any concerns.

Happy Holidays,

Jason