The SECURE Act and You

New legislation aims to improve retirement security for many Americans.

Key takeaways—The SECURE Act:

- Repeals the maximum age for traditional IRA contributions, which is currently 70½.
- Increases the required minimum distribution (RMD) age for retirement accounts to 72 (up from 70½).
- Allows long-term, part-time workers to participate in 401(k) plans.
- Offers more options for lifetime income strategies.
- Permits parents to withdraw up to $5,000 from retirement accounts penalty-free within a year of birth or adoption for qualified expenses.
- Allows parents to withdraw up to $10,000 from 529 plans to repay student loans.

As part of a larger government spending package, which was signed into law on December 20, 2019, Congress included provisions from the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The act includes many common-sense, long-overdue reforms that could make saving for retirement easier and more accessible for many Americans.

The important retirement legislation reflects policy changes to defined contribution plans (such as 401(k)s), defined benefit pension plans, individual retirement accounts (IRAs), and 529 college savings accounts. Most provisions in the law go into effect on January 1, 2020.

Here's a summary of key provisions of the SECURE Act:

Required minimum distributions (RMDs) now begin at age 72

- Americans are working longer and will no longer be required to withdraw assets from IRAs and 401(k)s at age 70½.
- RMDs now begin at age 72 for individuals who turn 70½ in the calendar year 2020.
- If you turned age 70½ in 2019 and have already begun taking your RMDs, you should generally continue to take your RMDs. The IRS may provide further guidance on this point, so you might want to speak with your tax advisor regarding any 2020 distributions.

Next step: If you are turning 70½ in 2020 and had planned on taking an RMD, you may want to work with your financial advisor to reconsider your withdrawal plans.

You can make IRA contributions beyond age 70½

- As Americans live longer, an increasing number are continuing to work past their traditional retirement age.
- Under the act, you can continue to contribute to your traditional IRA past age 70½ as long as you are still working. That means the rules for traditional IRAs will align more closely with 401(k) plans and Roth IRAs.

  Next step: Work with your financial advisor to determine your retirement readiness, how long you plan to work, and when you expect to start withdrawing from your retirement savings. This change doesn't apply for tax year 2019, as it will begin for tax year 2020 contributions. You can make your tax year 2020 contribution up until April 15, 2021.

Long-term, part-time workers will be able to join their company's 401(k) plan

- Up until now, if you worked less than 1,000 hours per year, you were generally ineligible to participate in your company's 401(k) plan.
- Except in the case of collectively bargained plans, the law now requires employers maintaining a 401(k) plan to offer one to any employee who worked more than 1,000 hours in one year, or 500 hours over 3 consecutive years.

  Next step: If you work part-time and haven't been eligible to participate in a 401(k) to date, ask your employer or HR department how and when you can enroll.

Inherited IRA distributions generally must now be taken within 10 years

- Previously, if you inherited an IRA or 401(k), you could "stretch" your distributions and tax payments out over your single life expectancy. Many people have used "stretch" IRAs and 401(k)s as reliable income sources.
- Now, for IRAs inherited from original owners who have passed away on or after January 1, 2020, the new law requires many beneficiaries to withdraw assets from an inherited IRA or 401(k) plan within 10 years following the death of the account holder.
- Exceptions to the 10-year rule include assets left to a surviving spouse, a minor child, a disabled or chronically ill beneficiary, and beneficiaries who are less than 10 years younger than the original IRA owner or 401(k) participant.

  Next step: If you have an IRA that you planned to leave to beneficiaries based on prior rules, consider working with your tax advisor or estate planning attorney, as this change may require you to reevaluate your retirement and estate planning strategies. If you're a beneficiary of an inherited IRA or 401(k) and the original owner passed away prior to January 1, 2020, you don't need to make any changes.

Small-business owners can receive a tax credit for starting a retirement plan, up to $5,000

- The new law provides a start-up retirement plan credit for smaller employers of $250 per non-highly compensated employees eligible to participate in a workplace retirement plan at work (minimum credit of $500 and maximum credit of $5,000).
- This credit would apply to small employers with up to 100 employees over a 3-year period beginning after December 31, 2019 and applies to SEP, SIMPLE, 401(k), and profit sharing types of plans.

- If the retirement plan includes automatic enrollment, an additional credit of up to $500 is now available.

  Next step: If you're a small-business owner and have not yet established a retirement plan for your employees, consider taking advantage of the new credit to establish a retirement plan.

Small-business owners will find it easier to join together to offer defined contribution retirement plans

- The new law facilitates the adoption of open multiple employer plans (MEPs) by allowing completely unrelated employers to participate in an MEP and eliminates the IRS's "one bad apple" rule, which stipulates that all employers participating in an MEP may face adverse tax consequences if one employer fails to satisfy the tax qualification rules for the MEP.
- Roughly half of private-sector workers in the US still don't have access to a retirement plan through their employer. Open MEPs can help deliver low-cost, high-quality retirement plans for millions of small business workers.

  Next step: If you're a small-business owner and have not yet established a retirement plan or would like to make changes to your plan that may make it easier to implement, consider taking advantage of the new law by joining a multiple employer plan, which will be available in 2021. If you're a small-business employee whose employer is currently unable to offer a plan, consider letting your employer know about this new opportunity.

You can withdraw up to $5,000 per parent penalty-free from your retirement plan upon the birth or adoption of a child

- The new law permits an individual to take a "qualified birth or adoption distribution" of up to $5,000 from an applicable defined contribution plan, such as a 401(k) or an IRA.
- The 10% early withdrawal penalty will not apply to these withdrawals, and you can repay them as a rollover contribution to an applicable eligible defined contribution plan or IRA.

  Next step: Consider taking advantage of this provision if you do not have ample personal savings to fully fund the birth or adoption of a child.

529 funds can now be used to pay down student loan debt, up to $10,000

- In some cases, families have money remaining in their college savings plans after their student graduates. Now, they can use a 529 savings account to pay up to $10,000 in student debt over the course of the student's lifetime.
- Under the new law, a 529 plan may also be used to pay for certain apprenticeship programs.

  Next step: If your family's 529 plans have money left over after you pay for college expenses, consider using the remaining money to help pay off student loans.

There are other changes that could impact workplace retirement savings plans. The SECURE Act:

- Encourages retirement saving by raising the cap for auto enrollment contributions in employer-sponsored retirement plans from 10% of pay to 15%. So if your plan at work provides auto enrollment, the amount withheld for your retirement savings could go up every year until you're contributing 15% of your pay to your retirement savings plan.

- Allows "lifetime income investment" to be distributed from your workplace retirement plan. The retirement income options would be portable. So, if you left your job, you could roll over this lifetime income investment to another 401(k) or IRA.
- Increases transparency into retirement income with "lifetime income disclosure statements." These statements would show how much money you could potentially receive each month if your total 401(k) balance were used to purchase an annuity. This disclosure would allow you and your financial advisor to better gauge what your potential income would be throughout retirement.

Talk to us

Work with your financial advisor to help clarify your personal and financial goals for both your retirement plan and your estate plan. Changes in the tax code, family relationships, and your own financial circumstances are common—requiring that you update your planning strategies every few years. Remember, your plans should evolve as you do.

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