The "SECURE Act" & NEW Changes

A brief summary of the Setting Every Community Up for Retirement Enhancement (SECURE) Act

On December 20, 2019 the President signed a spending package that included the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The SECURE Act ("the Act") intends to improve the nation's retirement system through various changes that will help individuals trying to save and small business owners wishing to offer retirement plans.

There are many other provisions included in the Act. This is a high-level summary and is not intended to be a complete analysis of the Act. The following are some of the key highlights.

Inherited IRAs:

- Historically, designated IRA beneficiaries were provided a number of distribution options after the death of the IRA owner. One of the options available was taking distributions from an inherited IRA (provided a number of conditions were met) based on the life expectancy of that designated beneficiary at the time of the first distribution. This option generally reduced the impact of income taxes on distributions by spreading annual required distributions over a relatively longer period. This option is commonly known as the Stretch IRA.
- The Act will limit the maximum distribution period for most (there are exceptions) non-spousal beneficiaries to 10 years from the year of death of the IRA owner. This will, in the majority of cases, be a much shorter time period than a beneficiary's life expectancy.
- This would apply to most non-spouse beneficiaries when the IRA owner dies on or after 1/1/2020.

Required minimum distributions:

- The required minimum distribution (RMD) age will be raised from the current 70½ to 72 for all qualified plans, including IRAs, 401(k)s, and other defined contribution plans. This would apply to individuals turning age 70½ in 2020.

IRA contributions after age 70½:

- Under the old law, an IRA owner older than age 70½ could not continue to contribute to an IRA despite the fact the individual had earned income. Under the new law, for 2020 and later tax years, the age cap for contributing to a traditional IRA is eliminated if the individual has earned income and is otherwise eligible to contribute to an IRA.

Qualified Charitable Distributions:

- The Act still allows an individual at age 70½ to make a Qualified Charitable Distribution (QCD) from their IRA. However, the QCD amount is reduced by any deductible contribution made to a traditional IRA post age 70½.

529 education savings accounts:

- The Act expands 529 education savings accounts to cover costs associated with registered apprenticeships and up to $10,000 (lifetime) of qualified student loan repayments (including those for siblings). This fell short of Senator Cruz's wish to change the section on 529 accounts so that parents could use them for home-schooling expenses as well.
- This is effective for distributions made after 12/31/2018.

Adoption and birth of a child exception:

- The Act allows 401(k), IRA, or other retirement account holders to withdraw up to $5,000 following the birth or adoption of a child without paying the usual 10% federal additional tax for early withdrawal. Distributions will be taxed as ordinary income unless funds are repaid. Married couples can withdraw $5,000 each from their own arrangements, allowing up to $10,000 per couple.
- This is effective for distributions after 12/31/2019.

Retirement plan annuity options:

- The Act makes it easier for plan sponsors to offer annuities as an option for their retirement plans.
- Under existing regulations, plan fiduciaries have to consider the long-term viability of an insurer before including their products in a retirement plan and are responsible for evaluating the company's fiscal viability. The Act will not totally eliminate this responsibility, but trustees will be able to rely on written representations from the insurer related to the insurer being financially responsible for the product guarantees.

Portability of annuities in retirement plans:

- Existing law and regulations do not permit lifetime income portability if the plan drops the annuity or lifetime income offering from the menu.
- The Act includes a provision stating that if the sponsor no longer offers the guaranteed income product or annuity, the benefit can be directly rolled over to an IRA, instead of being forced to surrender it, incurring charges and penalties in the process.
- Effective for plan years after 12/31/2019.

Multi-Employer Plans:

- The Act will make it easier for small business owners to join Multi-Employer Plans (MEPs).
- Effective for plan years after 12/31/2020.

Medical expense deduction threshold:

- Adjusts back to 7.5% of adjusted gross income for 2019 and 2020.

Kiddie tax:

- Reverts from a requirement to use trust tax brackets back to using the parents' top marginal tax bracket.

For specific information on how you will be affected by these changes, please call
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