The SECURE Act and your retirement

The question: What do I need to know about this new SECURE Act that was signed into law last month?

By passing the "Setting Every Community Up for Retirement Enhancement Act" Congress has changed some long-standing rules in three major categories related to retirement planning. We need to rethink our retirement strategies, tax planning, beneficiary designations and estate planning.

Required Minimum Distributions

Beginning Jan. 1, 2020, the new law extends the age to 72 when withdrawals are required from traditional IRAs (from age 70½).

If you turned 70½ in 2019, you still must take your RMD for 2019 no later than April Fool's Day, 2020. If you are currently taking RMD's, you must continue to take your RMD's. This Act changes the rules for people who turn 70½ in 2020 (or later), and they may postpone distributions to age 72. (Distributions may be taken any time after age 59½ without a penalty, but always with ordinary income tax.)

The SECURE Act doesn't change the age when Qualified Charitable Distributions (QCDs) from IRAs are permitted; IRA transfers to charities may still begin at age 70½.

Beginning in 2020, the Secure Act now allows contributions to traditional IRAs in the year you turn 70½ and beyond, provided you have earned income. You may not make 2019 (prior year) traditional IRA contributions if you are over 70½.

There are no age restrictions for Roth IRA contributions, just the requirement that there is earned income equal to the contribution.

Inherited retirement accounts

If you and your spouse don't spend all your retirement accounts, then your children, grandchildren or any non-spouse beneficiaries have to drain them in ten years after they receive them. No longer will non-spouse beneficiaries be able to 'stretch out' lifetime minimum annual distribution requirements. Ordinary income tax is due on all IRA distributions making this an excellent time to do some serious tax planning. Consider a Roth conversion if your marginal rate is lower than that of your beneficiaries. The timing of distributions may be flexible providing the entire account is emptied by the tenth year.

There are exceptions to the 10-year rule for disabled individuals and minor children who are beneficiaries of IRA accounts, but only until they reach the age of majority.

This rule does not apply to inherited IRAs existing prior to January 1, 2020.

As the owner of an IRA, evaluate the tax cost of Roth conversions. Often in retirement marginal tax rates are lower. Who is your beneficiary and who has the highest tax rate?

Surviving spouses who are their spouse's beneficiary are still permitted to treat their spouse's account as their own. Choices include opening an inherited IRA or disclaiming part (or all) of the account. These IRAs also may be converted to Roth IRAs.

Check the beneficiaries on your IRAs. Did you name a Trust as the beneficiary of your IRA? If so, reevaluate the consequences.

Employer Retirement Plans

Small businesses can pool together to set up 401(k) plans. An employer can now get up to $5,000 per year for three years for setting up a plan, and $500 per year for three years for including an automatic enrollment feature. That means the total tax credit, over three years, could be $16,500. An employer must allow 20 non-highly-compensated employees into the new retirement plan to earn the maximum possible tax credit.

The cap for automatically enrolling workers in "safe harbor" retirement plans increases from 10% of wages to 15%.

Part-time employees who work either 1,000 hours throughout the year or have three consecutive years with 500+ hours of service are now eligible to sign up for an employer retirement plan.

Other Interesting Points

There is a safe harbor for 401(k) plan sponsors making it easier to

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include annuities as an option in workplace plans.

College savings accounts (529 plans) may be used for apprenticeships, homeschooling, private school costs or up to $10,000 of qualified student loan repayments.

Loans are still permitted to be as much as 50% of the 401(k) balance and must be repaid within five years, unless borrowed to buy a home.

Penalty free withdrawals of up to $5,000 may be taken from a 401(k), IRA or other retirement account following the birth or adoption of a child. There will still be ordinary income tax.

Consult your experts - especially your accountant, estate planning attorney and financial advisor. The rules have changed and so must we.

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