Secure Act Changes to Retirement Savings Plans

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Focus on finance

SECURE ACT CHANGES TO RETIREMENT SAVINGS PLANS

Did you know that the Secure Act comprehensively updates retirement savings plans? In late December 2019, Congress passed and the President signed into law the Secure Act of 2019 (Setting Every Community up for Retirement Enhancement). This legislation was tucked into the congressional approval to extend government funding into 2020.

The Secure Act, which encompasses nearly 40 provisions of new law, expands access to employer-sponsored retirement savings plans, seeks to increase savings within these plans, streamlines certain aspects of the administration of these plans, and provides more options to earn retirement income, such as annuities.

WE REVIEW SOME OF THE MAJOR REVISIONS TO RETIREMENT SAVINGS PLANS BELOW:

- **Increases mandatory distribution age and eliminates age limit for contributions to traditional IRAs**

Effective in 2020 for those persons who reach age 70 1/2 in 2020 or later, minimum distributions from retirement savings accounts are only required after an individual reaches age 72. In addition, effective in 2020, contributions made for 2020 or later to traditional IRAs are permitted after an individual attains the age of 70 ½, bringing the rules relating contributions to traditional IRAs in line with those of contributions to Roth IRAs currently in effect.

- **Changes distribution requirements relating to inherited IRAs and defined contribution plans**

The Secure Act takes away some of the advantages of retirement savings plans for estate planning purposes. Generally, for deaths

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occurring in 2020 or later, the balance of inherited IRAs and inherited defined contribution plan accounts must be distributed by the end of the 10th year after the IRA owner or plan participant dies. Fortunately, there are still exceptions for certain beneficiaries, including spouses and minor children (18 or 21 years of age depending on state law, and full-time students to age 26). These beneficiaries are still permitted to take distributions over their respective life expectancies for inherited accounts.

- **Permits withdrawals from IRAs or employer plans for a new baby arrival in the family**

Effective in 2020, individuals may withdraw up to $5000 from IRAs or employer retirement plans in the year following the birth or adoption of a child. The 10% early withdrawal penalty tax would not apply to such withdrawals and the individual may re-contribute the amounts withdrawn at a later date. This provision expands the conditions under which individuals may access their retirement plans due to significant life events.

- **Requires employers to disclose annually, estimated lifetime annuity income of 401(k) accounts**

In order to help individuals better understand the value of their retirement savings plans to provide income during retirement, employers must disclose annually an individual's 401(k) account balances restated as monthly annuity payments. Employers will calculate these estimates pursuant to rules to be issued by the Department of Labor. Employees should be able to make more informed decisions about retirement savings when they can see their 401(k) accounts translated into future monthly retirement income.

- **Expands allowed 529s distributions**

Effective for all distributions beginning in 2019, funds contributed to 529 plans may be used to pay for expenses of an apprenticeship program. In addition, up to $10,000 may be used during an individual's lifetime to repay student loan debt.

- **Increases the availability of annuities within retirement plans**

Employers may now make annuities available within their retirement savings plans. Some employees may prefer to invest in an annuity, which combines life insurance and investment options within a single investment product.

Looking forward to our September-December, 2020, newsletter, we will be discussing saving for retirement in your 20s and 30s. Don't miss it.

Comments on this article?
Topics you would like to see discussed?
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