Key Secure Act Changes Affecting Retirement Plans for 2020

The Secure Act contains several provisions that will impact almost every individual who is planning for retirement. Two key changes under the Secure Act are summarized here. Extension of the "required beginning date" — which is the age at which individuals must begin taking required minimum distributions from IRAs. For owners who have not yet reached age 70 ½ by the end of 2019, the required beginning date is extended from age 70 ½ to age 72.

This means that individuals who are not already relying upon their IRAs for living expenses can take advantage of the tax deferral offered by IRAs for another year and a half. The remaining RMD rules were unchanged — so owners who reach age 72 in 2020 will be required to take their first RMD by April 1, 2021 (i.e., April 1 of the year following the year they turn 72).

For IRA owners who pass away after December 31, the "stretch" inherited IRA strategy will also be largely eliminated. Under the new Secure Act rule, almost every beneficiary who inherits a retirement account (IRAs, 401(k)s and even Roths) in 2020 and beyond will have to empty the account within 10 years. The new rule does not apply to surviving spouses who inherit the account. Disabled beneficiaries, as well as minor children, those who are chronically ill or less than 10 years younger than the account owner, are also excluded from the 10-year distribution rule.

Highlights of the Act include an increase in the RMD age by 18 months (from 70 ½ to 72) and the expansion of 401(k)s, among other things. But there's much more to know about the changes the Act brings, so read on as we review 10 facts, from the well-known to the little known, about the SECURE Act.

1. **The RMD age is being moved from 70 ½ to 72.** This provides an extra 18 months when clients can let their retirement funds grow before being forced to tap into them.
2. **Investors are no longer prohibited from contributing to a traditional IRA if they are 70 ½ and older, as long as they have earned income.** People can continue to put away money in a traditional IRA if they work into their 70s and beyond. (There are currently no age-based restrictions on contributions to a Roth IRA.)
3. **Part-time employees will have access to 401(k)s.** The Act guarantees 401(k) plan eligibility for employees who have worked at least 500 hours per year for at least three consecutive years and who are 21 years old by the end of that three-year period.
4. **There will now be penalty-free withdrawals for birth or adoption of a child.** If parents have a retirement account, the Act lets each parent take out up to $5,000 without paying the usual 10% early-withdrawal penalty.
5. **Annuity information and options will be expanded.** The Act requires 401(k) plan administrators to provide an annual "lifetime income disclosure statement" to plan participants, so they can see how much money they could get each month if their 401(k) account balance was used to purchase an annuity. The SECURE Act will also make it

easier for 401(k) plan sponsors to offer annuities and other “lifetime income” options to plan participants by taking away some of the associated legal risks. These would be portable, too.

6. **There will be an enhancement of auto-enrollment 401(k) plans.** The Act will increase the 10% cap on “Qualified Automatic Contribution Arrangement” (QACA) automatic contributions up to 15%, other than during a worker’s first year of participation. This would allow companies offering QACA’s to ultimately put more money into their workers’ retirement accounts while keeping the potential shock of higher initial contribution rates in check.
7. **Small businesses offering retirement plans will be given help.** The Act will increase the tax credit available for 50% of a small business’ retirement plan startup costs. Also, instead of the $500 per year credit limit, the Act will increase the maximum credit amount to $5,000.
8. **Amounts paid in the pursuit of extended study (such as the pursuit of graduate or post-doctoral study or research) would be treated as compensation for purposes of making IRA contributions.** This allows for affected students to begin saving for retirement sooner. Similarly, “difficulty of care” payments to foster care providers would also be considered compensation when it comes to 401(k) and IRA contribution requirements.
9. **Credit card access to 401(k) loans will be prohibited.** This Act would put a stop to 401(k) administrators allowing employees to access plan loans by using credit or debit cards.
10. **The Act is essentially doing away with the “stretch IRA” for non-spouse beneficiaries who are greater than 10 years younger than their spouse.** Distributions over the life expectancy of a non-spouse beneficiary would be allowed if the beneficiary is a minor, disabled, chronically ill, or not more than 10 years younger than the deceased IRA owner. For minors, the exception would only apply until the child reaches the age of majority. At that point, the 10-year rule would kick in. For example, under current law, a one-year-old who inherits an IRA is considered to have an 81.6-year life expectancy. Under the SECURE Act, that same child would have until age 21 + 10 years to withdraw the IRA, totaling 31 years. In this instance, the deceased would be better off naming his spouse as the beneficiary.
