The SECURE Act:
Key Changes and Frequently Asked Questions

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, passed in December 2019, includes many bipartisan reforms that increase access to workplace retirement plans and expand opportunities for personal retirement savings. Most provisions in the law become effective January 1, 2020.

These FAQs provide an initial overview of some of the key changes outlined in the act. A number of these provisions will be subject to interpretations from the Internal Revenue Service or other authorities. As always, you should consult with an advisor at Kendall Capital and/or your tax advisor regarding your own situation.

What is the SECURE Act?

The Setting Every Community Up for Retirement Enhancement (SECURE) Act is a bipartisan retirement bill that was included in a larger legislative package passed by the House of Representatives on December 17, 2019, and by the Senate on December 19, 2019. The bill was initially introduced in the House of Representatives and championed by Ways and Means chairman Richard Neal (D-Ma.) and ranking member Kevin Brady (R-Tex.). The bill includes reforms to Defined Contribution Plans, Defined Benefit Plans, IRAs, and 529 plans.

I inherited an IRA. How will the SECURE Act affect me?

For anyone who inherited an IRA from an original IRA owner who passed away prior to January 1, 2020, no changes to your current distribution schedule are required. However, for situations where the original IRA account owner passes away after December 31, 2019, fewer beneficiaries will be able to extend distributions from the inherited IRA over their lifetime. For a surviving spouse there will be no changes from the previous law. Children and grandchildren, however, will instead need to withdraw all assets from the inherited IRA within 10 years following the death of the original account holder. Exceptions to the 10-year distribution requirement include assets left to a surviving spouse, a minor child (until he or she turns the age of majority which is 18 in most states), a disabled or chronically ill individual, and beneficiaries who are less than 10 years younger than the decedent, such as a sibling or friend.

How will the changes to inherited IRA distributions impact my retirement planning?

This change will require some investors to reevaluate their retirement and/or estate planning strategies. While some beneficiaries may qualify for exemptions to the 10-year rule, others will be required to draw down assets more rapidly than required under the current rules. If they've inherited a substantial IRA account, that could drive them into higher tax brackets than they would have been otherwise. If they inherited a Roth IRA, it simply means they have to draw down the account and reinvest

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the proceeds in a regular taxable account; there is still no income tax to the beneficiary. However, it is important to note that anyone who inherited an IRA from an original account owner who passed away prior to January 1, 2020, can continue his current distribution schedule.

How does the law change Required Minimum Distributions?

The law increases the age at which an individual must begin taking required minimum distributions (RMDs) from 70½ to 72. The act states that this change applies beginning with IRA account owner who will attain 70½ on or after January 1, 2020. Congress recognizes Americans are increasingly working and living longer and updating RMD rules to reflect changes in life expectancy will allow Americans to continue their retirement savings for an extended period of time.

I reached the age of 70 in 2019. Do I need to take an RMD in 2020?

The act states that the beginning RMD age is shifted to age 72 for those who reach the age of 70½ starting in year 2020. This would mean that those reaching age 70½ in 2019 would need to continue to take RMDs in 2020. The IRS may provide further guidance on this point so those who reached age 70½ in 2019 may want to speak with their tax advisor about their 2020 distribution approach. Qualified Charitable Distributions (QCDs) are still allowable tax-free distributions and will count towards one's RMD after they reach 72.

What is the impact to contribution rules for traditional IRAs?

The law removes the age limit at which an individual can contribute to a traditional IRA. Today, an individual cannot contribute after age 70½. The act allows anyone who is working and has earned income to contribute to a traditional IRA regardless of age, though he still has to take his RMDs if he's 72 or older. Contributions can also be made on behalf of a non-working spouse, called a Spousal IRA contribution.

How will the new law affect distributions upon the birth or adoption of a child?

Upon the birth or adoption of a child, the law permits an individual to take a "qualified birth or adoption distribution" of up to $5,000 from an applicable eligible defined contribution plan or IRA. This distribution is not subject to the 10 percent early withdrawal penalty.

How does the law impact 529 accounts?

The law expands the definition of a tax-free or qualified distribution from a 529 savings plan to include repayment of up to $10,000 in qualified student loans, and expenses for certain apprenticeship programs. The SECURE Act makes this change retroactive to distributions made after December 31, 2018. While the cap is a lifetime limit of $10,000, one could also use $10,000 of a 529 plan to repay the loan of a sibling.

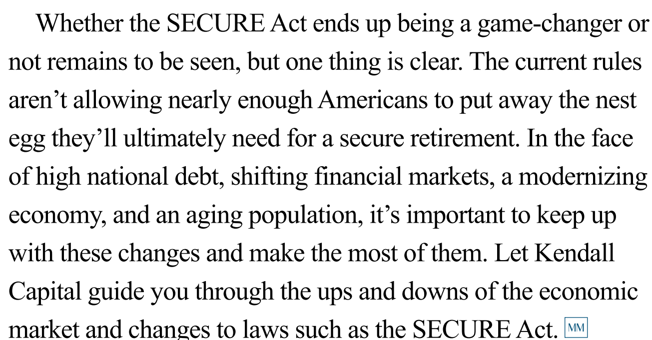
Kendall Capital is evaluating these changes

This bill is far from a cure-all for the nation's retirement savings challenges, but several of the provisions represent a step in the right direction.

Adding flexibility to 529 accounts is a positive change as it can be used to repay some student loans under the bill. This is a good option for parents who may have funds remaining in an educational savings account and want to help a child who has already graduated.

Additionally, moving the starting age for required minimum distributions to 72 also makes sense, given that people are living longer than they did a generation ago. Pushing back RMDs will help people make their money last just a little bit longer, especially since more of them need to work later.

One of the goals of this act was to encourage small business employers to establish retirement plans for employees. There are several features we applaud, like more flexible deadlines to establish plans, tax credits for establishing a plan and the ability for multiple employers to pool their assets and share administrative costs. The act also makes it possible for part-time workers to participate in the retirement plan if they've worked for at least three consecutive years. However, there is an obvious "nod" to the insurance industry by relaxing the requirements of employers who choose to use annuities to fund their retirement plans.



The bottom line

Whether the SECURE Act ends up being a game-changer or not remains to be seen, but one thing is clear. The current rules aren't allowing nearly enough Americans to put away the nest egg they'll ultimately need for a secure retirement. In the face of high national debt, shifting financial markets, a modernizing economy, and an aging population, it's important to keep up with these changes and make the most of them. Let Kendall Capital guide you through the ups and downs of the economic market and changes to laws such as the SECURE Act. MM