

# New Retirement Plan Rules – SECURE Act

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The Setting Every Community Up for Retirement (SECURE) Act was signed into law on December 20, 2019 and will have an impact on most retirement savers. Ultimately, the law focuses on retirement planning in three key areas: 1) modifying required minimum distributions (RMD) rules for retirement plans; 2) expanding retirement plan access and saving opportunities, 3) increasing lifetime income options in retirement plans.

It is anticipated that it will take a few months for additional clarity.

Some of the new rules and provisions of the SECURE Act are as follows:

## **Required Minimum Distribution Relief for Retirement Plans:**

### **Increased Required Minimum Distribution (RMD) Age:**

- The SECURE Act increases the RMD age from age 70 ½ to age 72.
- If under age 72 and already taking an RMD (age 70 ½ or older on or before December 31, 2019), you must continue taking your RMDs and are not allowed to defer to age 72.
- However, a Qualified Charitable Distribution (QCD) of \$100,000 still applies to a person who is age 70-1/2. For someone who is under the new age 72 RMD rules, a QCD can occur between the ages 70-1/2 to age 72.

### **Elimination of IRA “Stretch” Strategy:**

One of the most significant changes is to what is referred to as “the stretch IRA”. Prior to the SECURE Act, beneficiaries who inherited retirement accounts could stretch the RMD over their lifetime. The SECURE Act changes that strategy for most non-spouse beneficiaries who inherit their retirement accounts on or after January 1, 2020.

Starting in 2020, a non-spouse beneficiary will not be able to stretch RMD’s over the beneficiary’s life expectancy and any retirement account will need to be distributed over a 10-year period instead of the beneficiary’s life expectancy.

The new stretch rules begin applying to those who have inherited an IRA after December 31, 2019. However, the following are exceptions to the new mandatory 10-year distribution rules:

- Most non-spouse beneficiaries must take the account proceeds (and pay the corresponding taxes) within 10 years of inheriting the account. Amounts taken during the 10-year period are flexible as long as the account is liquidated by the end of the 10th year.
- Spouse beneficiaries, non-spouse beneficiaries who are no more than 10 years younger than the IRA owner and non-spouse beneficiaries who are disabled or chronically ill, will continue to be able to stretch their IRAs over their lifetime.
- If a minor child inherits the IRA, the 10-year period begins when the beneficiary reaches the age of majority (the age at which a minor child legally becomes an adult, generally between 18 – 21 years old) in his or her state of residence.

We recommend reviewing your retirement plans and beneficiary designations with your advisor to explore how the SECURE Act may impact your current retirement and estate plan.

## **Increased Retirement Saving Opportunities:**

### **Elimination of the 70 ½ age limit for contributions to a Traditional IRA:**

- If you have earned income, you can now contribute to a traditional IRA after age 70-1/2. Your contribution may be tax deductible (depending on your adjusted gross income and whether you are eligible to participate in an employer sponsored retirement plan).
- There is no change for Roth IRAs, which do not have an age limit.
- Special rules apply to ensure individuals who make contributions after age 70 ½ cannot also receive a qualified charitable distribution (QCD) credit for those amounts.

### **401(k)s for Part-time Employees:**

- Starting in 2021, Part-time workers can now participate in their employer’s 401(k).
- The SECURE Act guarantees 401(k) plan eligibility for employees who have worked at least 500 hours per year for three consecutive years.
- The part-time employee must also be 21 years of age by the end of the three-year period.

**Multiple Employer Plans (MEPs):**

- Small employers can now use a pooled employer plan referred to as Multiple Employer Plans (MEP's) to help keep administrative costs down expanding access for workers currently without a workplace savings plan.
- However, the SECURE Act's MEPs provisions don't take effect until 2021. Additionally, the U.S. Department of Labor will need to clarify the rules before many small business employers will feel comfortable providing retirement accounts.

**Increased Tax Credit for Small Business's Retirement Plan Start-Up Costs:**

- The tax credit for establishing a qualified plan has increased from \$500 to \$5,000.
- In addition, a new \$500 tax credit has been added for small business's start-up costs for new 401(k) plans and SIMPLE IRA plans that include automatic enrollment.
- The credit is available for three years and is in addition to the existing credit described above.
- The credit is also available to small businesses that convert an existing retirement plan to an auto-enrollment plan.

**Guaranteed Lifetime Income Option from Retirement Plans:**

**Retirement Plan Annuity Option:** The SECURE Act will encourage employers with retirement savings plans to let employees convert their savings into guaranteed life income, using annuities.

- However, for certain individuals it may make sense to annuitize a portion of your retirement savings by purchasing an annuity outside of your retirement plan with an insurance company instead of what the retirement plan option is offering.

Our Planning Team can help explore if an annuity is a suitable option for you based upon your Financial Plan and retirement income needs.

**Penalty-Free Withdrawals for Birth or Adoption of Child:**

The SECURE Act allows for an individual to withdraw up to \$5,000 from a qualified retirement account following the birth or adoption of a child without paying a 10% early-withdrawal penalty.

- Income tax on the distribution is still owed unless repaid.
- If you are married, each spouse can withdraw \$5,000 from his or her own account, penalty-free.
- You have one year from the date your child is born or the adoption is finalized to withdraw the funds from your retirement account without paying the 10% early-withdrawal penalty.

**Changes to Kiddie Tax Rules:**

A major change of the SECURE Act is the repealing of the Tax Cut and Jobs Act of 2017 (TCJA) change to the Kiddie Tax rules. Under TCJA, a child's unearned income is taxed at estate and trust income tax rates.

The SECURE Act repeals the TCJA change to the Kiddie Tax, reverting back to the rules that were in effect before 2018.

- This change is effective for tax years that begin after December 31, 2019.
- A child's net unearned income will return to being taxed at the parent's marginal tax rate (if higher than the tax rate of the child) instead of the estate and trust income tax rates.
- The legislation allows taxpayers to elect to have the change applied retroactively as an amendment to 2018 and/or 2019 tax years.
- You may be eligible for a tax refund if the liability on the child's tax return is decreased by using the parent's marginal tax rate instead of the originally filed return which used estate and trust tax rates.

At Winthrop Wealth, we have a proactive approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a roadmap for each client's unique goals and objectives. The comprehensive Financial Plan defines cash flow needs, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection.

As always, please contact us if you have any updates to your personal or financial circumstances or would like to discuss how the SECURE Act might impact your personal financial plan and retirement income needs.

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**DISCLOSURES:**

This information is not intended to be a substitute for individualized tax advice. We suggest that you discuss your specific tax situation with a qualified tax advisor.

This information is not intended to be a substitute for individualized legal advice. We suggest that you discuss your specific situation with a qualified attorney.

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