How the SECURE Act Will Impact Retirement and Estate Planning

The Setting Every Community Up for Retirement Enhancement Act of 2019, also known as the SECURE Act, took effect on January 1st, 2020. It will impact the way many Americans plan for retirement and manage their retirement accounts. The SECURE Act provides new opportunities to boost retirement savings, but it also presents planning challenges for those who inherit IRAs, 401(k)s, and other retirement accounts.

Let's look at the SECURE Act's key changes, starting with two involving Required Minimum Distributions (RMDs).

The required minimum distribution age has changed from 70 ½ to 72. In the past, retirement account owners had to begin withdrawing funds when they turned 70 ½. The SECURE Act postpones this to age 72, giving workers 18 more months to enjoy the tax benefits provided by retirement accounts before required withdrawals kick in. However, pushing out RMDs without changing the life expectancy tables will cause retirees to have higher RMDs, which in turn could increase taxes and Medicare premiums for some.

Mandatory distributions on inherited accounts.
Under the SECURE Act, individuals who inherit an IRA will have to draw down 100% of its assets within 10 years. This is a significant change. Before the SECURE Act, inherited IRAs could be drawn down over the course of the beneficiary's life expectancy. Many IRA beneficiaries will now lose the opportunity to stretch the value of the IRA and benefit from potential tax breaks. The SECURE Act does contain exceptions for the spouse, chronically ill or disabled beneficiaries, minors, and beneficiaries who are 10 years (or less) younger than the original account owner.

Now let's look at some other changes that benefit certain individuals and present opportunities to save more for retirement.

No age restrictions on IRA contributions. Before the SECURE Act, contributions to traditional IRAs by workers age 70½ and older were prohibited. This restriction has been eliminated. (There are currently no age-based restrictions on contributions to a Roth IRA.) For 2020, workers who are 50 years of age or older can contribute up to $7,000 annually while workers under age 50 can contribute up to $6,000.

Penalty-free withdrawals for new parents. The SECURE Act allows withdrawals of up to $5,000 from 401(k)s, IRAs, and other retirement accounts within one year of the birth or adoption of a child without paying a 10% early-withdrawal penalty. However, such withdrawals will still be subject to income taxes unless the withdrawals are repaid to the retirement account.

The SECURE Act makes it easier for 401(k) plan sponsors to offer annuities and other "lifetime income" options to plan participants by eliminating some of the associated legal risks. Also, 401(k) plan administrators must provide annual "lifetime income disclosure statements" to plan

participants showing how much money would be received each month if the participant used the total 401(k) account balance to purchase an annuity.

Auto-enrollment 401(k) plans have been enhanced. The SECURE Act increases the 10% cap on Qualified Automatic Contribution Arrangements (QACAs) to 15% after a worker's first year of participation. This allows companies offering QACAs to put more money into their workers' retirement accounts.

401(k)s for part-time employees. In the past, employees who didn't work at least 1,000 hours per year usually weren't allowed to participate in their employer's 401(k) plan. The SECURE Act guarantees 401(k) plan eligibility for employees who have worked at least 500 hours per year for at least three consecutive years.

Assistance to small businesses that offer retirement plans. The SECURE Act has three provisions designed to help small businesses offer retirement plans for their employees.

1. An increased tax credit is available to cover 50% of a small business's retirement plan start-up costs. Previously, the credit was limited to $500 per year. The SECURE Act increases the maximum credit amount to $5,000.
2. A new $500 tax credit on small business start-up costs for new 401(k) plans and SIMPLE IRA plans that include automatic enrollment. The credit will also be available to small businesses that convert an existing retirement plan to an auto-enrollment plan.
3. Unrelated employers can now participate in a multiple-employer plan and have a "pooled plan provider" administer it. This provision will allow small businesses to leverage economies of scale not otherwise available to them, lowering administrative costs.

It's always a good idea to keep your estate plan up-to-date. Given the SECURE Act's many changes, this could be an excellent time to have us review your plan. At McKelvey Law Offices, we are confident in finding a plan that benefits your financial situation the most. We provide a vast range of services within estate planning to people surrounding the Johnstown area. Give us a call today at (814) 262-8058.