

At the end of 2019, Congress passed the most sweeping change to retirement rules in over a decade.¹

Known as the Setting Every Community Up for Retirement Enhancement Act (SECURE Act), this legislation went into effect on January 1, 2020, and impacts retirement and estate planning rules.

Here are a few of the biggest takeaways from the Act:

RMDs Now Start at Age 72

The new rules delay the age at which you must begin taking Required Minimum Distributions (RMDs) from your Traditional IRA.²

If you are already taking RMDs, continue taking them. The new rules don't affect you. If you were born between January 1 and June 30, 1949, you're subject to the old rules and must take your first RMD before the end of 2020. But, if you were born on July 1, 1949, or later, you can delay beginning distributions until you turn 72.

You Can Contribute to a Traditional IRA After Age 70½

If you are earning income, you can continue making contributions to your Traditional IRA after you retire.¹ This change is great news for anyone who wants to continue working and growing their retirement savings. Since there's no age cap on Roth IRA contributions, there's no change there.

"Stretch" IRAs Are Gone For Most People

If you inherit an IRA after January 1, 2020, you won't be able to "stretch" distributions over your own lifetime, unless you qualify for certain exemptions, including for spouses, minor children, chronically ill or disabled beneficiaries, etc.¹

Under the new rules, most beneficiaries of an inherited IRA will have to withdraw the full account balance and pay taxes on the distributions within 10 years. Fortunately, if you inherited one already, you're grandfathered in under the old rules.

Your 401(k) Might Start Including Annuities

The new rules pave the way for employers to start offering annuities within 401(k) plans by adding additional "safe harbor" protection for employers.¹ While annuities can add options for employees seeking retirement income, they require research and cost-benefit analysis before incorporating them into retirement strategies. We strongly recommend seeking advice before purchasing one within your 401(k).

401(k) Plans Become More Accessible to Businesses and Employees

Many small businesses have found it expensive and cumbersome to provide 401(k) plans to their employees.¹ The new rules make it simpler and safer for small employers to team up to offer "multi-employer" plans. Starting in 2021, employers who provide 401(k) accounts to full-time employees will be required to offer access to qualifying part-time employees.

New Parents Can Take Out Penalty-Free Distributions For Births and Adoptions

Parents can now withdraw up to \$5,000 (or \$10,000 if married) from their qualifying retirement accounts without paying the early withdrawal penalty if done within one year of the birth or adoption date (income taxes still apply).³

This rule has some important details to get right and taking early withdrawals from your retirement account can reduce your retirement savings later. We recommend asking for advice on the best way to cover birth or adoption costs before taking advantage of the new rule.

...Plus Some Miscellaneous Tax Fixes

Kids' unearned income is now taxed at the parents' top marginal tax bracket (instead of the much higher trust tax bracket).⁴

The medical expense deduction threshold is back at 7.5% of Adjusted Gross Income for 2019 and 2020.⁵

529 college savings plans can now be used for apprenticeships and up to \$10,000 of student loan repayments.⁶

The deduction for up to \$4,000 in qualified tuition and fees is now available again.⁵

Bottom Line: Rules Change, but the Fundamentals of Planning Don't

The SECURE Act offers both new opportunities to potentially maximize your planning and new pitfalls to avoid. We're carefully analyzing how the rules could impact you and will reach out if changes need to be made to your retirement or estate strategies.

1 <https://finance.yahoo.com/news/congress-just-passed-biggest-retirement-200413052.html>

2 <https://www.mercurynews.com/2019/12/30/transitioning-to-new-rmd-rules-thanks-to-the-secure-act/>

3 <https://www.kiplinger.com/slideshow/retirement/T047-S001-how-the-secure-act-will-impact-retirement-savings/index.html>

4 <https://www.savingforcollege.com/article/congress-passes-kiddie-tax-fix>

5 <https://myedmondsnews.com/2019/12/sponsor-spotlight-retroactive-tax-law-changes-what-you-need-to-know/>

6 <https://www.savingforcollege.com/article/new-law-allows-529-plans-to-repay-student-loans>

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