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The SECURE Act Changed Retirement, Estate, and College Plans

There was a little something for everyone in the 'Setting Every Community Up for Retirement Enhancement' (SECURE) Act, a piece of bipartisan legislation that was attached to the United States federal spending bill and signed into law toward the end of 2019. Here are some of its provisions:[1]

- Tax relief for children with unearned income
- Authorized federally-penalty-free distributions from retirement plans after the birth or adoption of a child
- Opened workplace retirement plan participation to long-term part-time employees
- Prohibited credit card loans from 401(k) plans
- Opened multiple employer plans (MEPs) to more diverse companies
- Created incentives for smaller companies to offer workplace retirement plans
- Made it possible for retirement plans to offer annuities and other lifetime income options
- Made annuities lifetime income options portable

That's not all. The SECURE Act included dozens of other provisions. Some went into effect immediately with the passage of the bill, and others were retroactive to the start of 2019. Many of these provisions will affect retirement, estate, and college savings plans.[1]

IRA provisions Americans will appreciate
Millions of Americans save for retirement in IRA accounts. Some contribute directly to IRAs each year, while others rollover assets accumulated in workplace retirement plans to IRAs when they change employers or retire.[2]

The SECURE Act changed the law and now Americans of any age can save in IRAs.[1]

Under previous law, Americans who were working at age 70½ could not make contributions to traditional IRAs, reported *Dechert LLP*. The SECURE Act removed this restriction. Now, anyone who has earned income can save in an IRA at any age.[1, 3]

In 2020, Americans can contribute up to $6,000 to an IRA. Those who are 50 or older, can contribute an additional $1,000 in catch-up contributions. Spouses also may also be eligible to contribute to IRAs.[4]

Anyone who is working beyond normal retirement age because they're worried about running out of money in retirement, should consider saving in a Traditional or Roth IRA.

Roth IRAs don't offer tax-deductions today, but they offer tax-free distributions in the future as long as certain conditions are met.[5]

The SECURE Act changed the age for required minimum distributions (RMDs) to 72.[1]

In the past, whether they wanted to or not, Americans were required to begin taking distributions from qualified accounts, like IRAs, by April 1 of the year following the year they reached age 70½. After that, they had to take RMDs every year or pay a penalty that could equal 50 percent of the missed distribution. Now, the age for RMDs has been pushed to 72.[6, 7]

If you've worked with a financial professional to develop a retirement income plan, the new rules for RMDs may affect that plan. You may want to schedule an annual review early in the year to evaluate the change.

If you don't have a retirement income plan, and you have an IRA, it may be time to put a plan in place. Planning can help you understand how much income you may have in retirement. If there is a gap between how much you'll need and how much you'll have, you can make adjustments. Retirement income plans also shed light on the way your post-work income affects Social Security and Medicare benefits.

IRA provisions that may not be popular

The revenue to pay for the SECURE Act was primarily generated by changing the rules for inherited IRAs. Americans with legacy or estate plans that direct retirement assets to trusts may be affected, and the new rules may require immediate action.[1]

Previously, a child or grandchild could be named as the beneficiary of an IRA, and RMDs could be 'stretched' over the beneficiary's life expectancy. The strategy made it possible for assets in IRAs to grow tax-deferred over generations.[8]

Now, IRA assets inherited by non-spouse beneficiaries must be distributed within 10 years after the death of the original IRA account owner. There are some exceptions which include spouses, minor children, and the chronically ill or disabled.[1]

The new rule took effect December 31, 2019. Consequently, if a 'stretch' IRA is part of your current estate plan or part of your parents' estate plan, the plan(s) may need to be changed. The *National Law Review* explained:[9]

> "Historically, where retirement assets are directed to a trust, the trust beneficiaries could get the benefit of [favorable income tax deferral], provided the trust was properly drafted. For a trust to have qualified for the stretch, the trust must have been drafted as a 'see-through' trust. There are two types of see-through trusts: 'conduit' trusts and 'accumulation' trusts. The greatest impact of the SECURE Act will be on conduit trusts."

If you're unsure whether your estate and legacy plans include trusts as beneficiaries of IRAs, get in touch with your financial professional and/or attorney to find out.

Qualified distributions from 529 College Savings Accounts can do more

Many Americans save for higher education in 529 College Savings Plans because any earnings grow tax-deferred and distributions taken to pay for qualified expenses are tax-free. Also, when you invest in a plan sponsored by your state, contributions may be state-tax deductible.[10]

The SECURE Act expanded the definition of qualified expenses for 529 college savings plans. The new law included two amendments that significantly changed the definition of qualified education expenses.[1]

First, parents and grandparents can now help students pay qualified student loans with assets from 529 plans. Up to $10,000 can be distributed to repay principal and interest. The rule is retroactive to the beginning of 2019.[1]

Second, assets in 529 plans can now be used to pay qualified expenses associated with apprenticeship programs, as long as the programs are registered with the Department of Labor.[1]

Learn more before you take action

The SECURE Act will affect retirement, estate, and college savings plans. The changes often are nuanced and will apply differently, depending on the individual's circumstances.

Before you take any action, contact your financial or tax professional to learn more about how the new law may affect you and your plans.

Sources:
[1] https://www.congress.gov/bill/116th-congress/house-bill/1865/text#HC37BE3208CBC4A828A644C73A9EBAE36
[2] https://www.ici.org/policy/retirement/plan/ira/faqs_iras
[3] https://www.dechert.com/knowledge/onpoint/2019/12/secure-act-passage-now-secure.html
[4] https://www.irs.gov/retirement-plans/cola-increases-for-dollar-limitations-on-benefits-and-contributions
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[9] https://www.natlawreview.com/article/secure-act-trust-planning-inherited-iras
[10] https://www.savingforcollege.com/intro-to-529s/what-is-a-529-plan/

Prior to investing in a 529 Plan, investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax-free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply.

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