The 'SECURE Act' is Signed!

WOW; just like that, a huge piece of retirement legislation was just passed. This will either have an affect on your retirement or your heirs. For the most part, the law is helpful, but like many laws, there are some pitfalls which I will discuss. The SECURE Act was signed into law on December 20, 2019. The law was crafted with the intent to encourage individual retirement savings. While this law should achieve this goal, it will also increase tax revenue.

This law has 29 provisions. We will look at five here that I believe are most important. The first is that the Required Minimum Distributions are now required to start by April 1st of the year you turn Age 72, versus April 1st of the year after you turned 70 1/2. Of course, I continue to recommend that you distribute all or most of your charitable giving direct from your IRA versus writing a check out of your non-retirement accounts (age remains at 70 ½ for allowable IRA charitable contributions).

The second provision allows for continued IRA contributions past Age 70 ½. If you have earned income past age 70 ½, you can now continue to contribute to Traditional IRAs. Again, you have to have 'earned' income. This is the critical piece. Some seniors have part time retirement jobs that allow for additional Traditional IRA contributions. Given that for people Age 50 and older, you can contribute $7,000! This is now a substantial savings vehicle and can be a great tax deduction. In the past, you could just contribute to Roth IRAs after Age 70 ½ (still at $7,000).

Thirdly, the Act is encouraging annuities within the 401K system. A typical Defined Contribution Plan (401K) does not guarantee a nickel no matter the value. You could have $250,000 in your retirement plan, but it won't guarantee a monthly or annual benefit as it is currently set up. By adding an annuity component; you could set up a portion that will pay out 'X' amount of dollars by certain ages. Of course, this can be complicated, and the devil is in the details, as employees switch jobs and benefits come and go.

While I generally like the first three provisions mentioned, the fourth is definitely a huge negative. A non-spouse Beneficiary can no longer take income over their lifetimes. The longest you can stretch the income is 10 years from a Beneficiary Traditional IRA or Roth IRA. The stretch IRA is effectively over; if you pass after this year. The government would rather have the taxes over 10 years, than over 20-30-50 years! This is more money in the coffers of the government. A second part to this is the Roth Beneficiary IRA. This is a strange one, as non-spouse beneficiaries have always been required to take tax free distributions over their lifetimes, but now the government does NOT like the tax free dollars accumulating, so beneficiaries are required to empty out the Roth in 10 years too.

The last one is regarding 529s; you can now use 'up to' $10,000 to pay off student loans and also siblings of beneficiaries. This is $10,000 over your lifetime, not annually. This is why it is best to plan for college expenses at birth vs. no plan at all. You could end up in debt to the tune of a mortgage payment(s). I have seen this.

As important details emerge, I will keep you informed!

Sincerely,

Andrew D. Wade, CFP®
President