SECURE Act Overview

On December 20, 2019, the Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law. This Act introduced several new rules and provisions that affect retirement savings for both employer-sponsored plans and individual retirement accounts.

Major changes implemented by the SECURE Act include:

1. Increasing the age for Required Minimum Distributions (RMD) from 70 ½ to 72.
   a. Effective January 1, 2020 the age to start annual RMDs was increased to age 72. That means retirement assets can grow an additional 1 ½ years before distributions must start.
   b. If you were already 70 ½ or older on January 1, 2020 the then you must continue taking annual RMDs.

2. Eliminating the “stretch” IRA.
   a. Prior to implementation of the SECURE Act, a beneficiary could “stretch” the RMD payouts over their lifetime when the original retirement account owner died. That ability has been removed and most beneficiaries will have to take the full amount inherited by December 31 of the 10th year following the death of the original retirement account owner. There is no RMD before the 10th year. There will be a 50% IRS penalty for each year that any amounts remain in the retirement account beginning in year 11.
   b. There are exceptions to the 10-year rule for Eligible Designated Beneficiaries, who are defined as:
      i. The surviving spouse
      ii. Minor child of the retirement account owner
         1. This applies until the child attains the age of majority at which time the 10-year rule starts to apply.
      iii. Disabled beneficiary
         1. As defined by IRS Code. The 10-year rule applies after the disabled beneficiary dies.
      iv. Chronically ill individual
         1. As defined by IRS Code. The 10-year rule applies after the chronically ill individual dies.
      v. Designated beneficiary less than 10 years younger
         1. The 10-year rule applies after the beneficiary dies.

3. Eliminating the age restriction on making IRA contributions.
   a. Regular contributions to a Traditional IRA are no longer subject to an age restriction.
   b. The accountholder must still have earned income to make a contribution.

4. Expanding the use of 529 Plans.
   a. A lifetime limit of $10,000 may be withdrawn tax-free from a 529 plan to pay qualified loan payments for higher education expenses.
   b. This applies to a beneficiary or sibling of the beneficiary.

5. Provides for a penalty free withdrawal for birth or legal adoption.
   a. Up to $5,000 can be withdrawn. It will be included in income for taxation but will not be subject to a 10% penalty.
   b. This does not apply to the adoption of a spouse’s legal child.
   c. Funds may be repaid to the account.

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