

WHAT IS THE SECURE ACT *and how could it* AFFECT YOU

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President Trump signed the SECURE Act, Setting Every Community Up for Retirement Act of 2019, on December 20th. The bill is intended to provide increased retirement account access for individuals and offers additional options for older Americans to reduce longevity risk. The bill includes reforms to DC plans, DB plans, IRAs and 529 plans.

When will the Law become effective?

Most provisions became effective as of January 1, 2020

Major Impacts

- Removal of Stretch Inherited IRA
- Annuity Options inside 401ks
- RMDs
- Traditional IRA Contribution Age Limits
- Qualified Birth or Adoption Distributions
- Expansion of 529 Qualified Distribution Options
- Increased Small Employer Access to Retirement Plans

1

Removal of “Stretch” Inherited IRA Provisions

Most Non-spousal Beneficiary Inherited IRA RMDs will no longer be allowed to be spread out over the beneficiary’s lifetime. According to the new legislation; many will have only 10 years after the account owner passes away to distribute assets. Certain types of trusts written before the new legislation may need to be amended. Additionally, the change will be a tax generator, meaning a tax hike on many Americans who will need to take earlier IRA distributions.

2

Improved Annuity Option Flexibility in 401ks

Today many employers avoid annuities in 401k plans due to potential liability in selection of annuity providers. New legislation will provide a safe harbor for employers which will lessen employer liability and potentially lead to more employer offerings of annuities in 401(K) plans.

3

Increased Required Minimum Distribution Ages

Today most individuals begin taking RMDs the year they turn 70.5, but the SECURE Act pushes the requirement back to age 72. Additional legislation has proposed pushing this back to age 75. Other changes include reducing the amount that must come out and eliminating the requirement for small accounts.

4

Traditional IRA Contribution Limits

Retirement savings had been discouraged for people who worked later in life due to the inability for Traditional IRA contributions after RMD age. This rule has been removed for those who have earned income going forward.

5

Qualified Birth or Adoption Distributions

Upon the birth or adoption of a child a distribution of up to \$5,000 from an applicable eligible defined contribution plan or IRA will be available without a 10% early withdrawal penalty.

6

Expansion of 529 Qualified Distribution Options

Tax-free or qualified distributions from 529 savings plans will be allowable for repayment of up to \$10,000 in qualified student loans, and for certain apprenticeship programs. This is retroactive to December 31, 2018.

7

Increased Small Employer Access to Retirement Plans

The bill makes several changes to encourage small businesses to offer retirement plans to employees. These changes include reduced fiduciary liability and a new tax credit of \$500 for three years to encourage smaller employers to provide automatic enrollment into their plans.

The SECURE Act will increase the value of having access to a financial planning professional in long-term retirement planning. The new legislation will increase tax burdens through faster distributions of IRAs and provides an opportunity for client discussions around existing estate planning and trusts. There may also be added advantages to considering Roth conversions for those who may want to pay taxes now rather than pass them on to their beneficiaries.

If you would like more information on how new legislation may affect your wealth planning; please contact your financial advisor.

Our Toll-Free Number is (866) 748-7721

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