THE SECURE ACT: 3 KEY TAKEAWAYS

The SECURE Act brought some big changes to retirement planning. Here are three key takeaways from the bill.

In today's political climate, it's rare to find legislation that is impactful and receives widespread, bipartisan support. The SECURE Act was one such bill, passing the Senate and House by a margin of 71 to 23 and 297 to 120, respectively. The act became law on January 1st, bringing about some of the biggest changes to retirement planning since the Pension Protection Act of 2006.

In this article, we share three important facets of the bill - but this list isn't all-encompassing. If you'd like a custom analysis to see how the SECURE Act should influence your retirement plan, we invite you to connect with our team.

Without further ado, here are three key takeaways to have on your radar.

TAKEAWAY #1

RMDs NOW START AT AGE 72

For years, retirees were required to take Required Minimum Distributions (RMDs) from IRAs and other employer-sponsored plans in "the year in which they turn 70 ½ years old." The SECURE Act has extended this by 1 ½ years, now requiring retirees to begin RMDs "in the year in which they turn 72."

From a practical viewpoint, this means that you now have 18 more months to keep funds invested before taxable distributions are required. In most cases, and assuming you can afford to leave the funds invested, we recommend that clients defer distributions until RMDs begin.

One important thing to note - if you have already started taking RMDs, you must maintain your current distribution schedule. Unfortunately, the SECURE Act does not allow retirees who have started RMDs (but are less than 72 years old) to take advantage of the new law.

TAKEAWAY #2

THE "STRETCH IRA" IS GONE FOR MANY PEOPLE, SO CHOOSING A BENEFICIARY FOR TAX-DEFERRED ACCOUNTS REQUIRES MORE STRATEGY.

Once you pass on, the balance of your IRA will go to the account's designated beneficiary. In the past, the beneficiary could extend or "stretch" distributions from an inherited IRA over their lifetime. The SECURE Act has removed this provision for many people by requiring that the account balance be distributed within 10 years. To illustrate this, consider the example of a parent who passed away, leaving a $1 million IRA to their 40-year-old child.

Before the SECURE Act

Distributions from this $1 million IRA could be "stretched" across the child's lifetime, keeping the funds invested tax-free for many years while limiting the annual tax hit.

After the SECURE Act

The child is now forced to distribute 100% of the traditional IRA balance within 10 years. These distributions can no longer grow tax-deferred, and most critically, the child must treat these distributions as ordinary income. If the child is near the threshold between two tax brackets, these distributions could push them into a higher bracket - furthering the tax liability.

While this is a simplified, hypothetical example, it does show how substantial this change will be for some families. And our friends at the IRS certainly agree, as they expect an additional $15.7 billion in revenue from this change to the tax code.[1]

So, what can be done? It's important to note that spouses, children under 18, and individuals not more than 10 years your junior may still "stretch" the distributions from an IRA out over their lifetime. With this in mind, we recommend that you first check to see who is listed as a beneficiary on your IRA. If it's an adult child - or a child that may be over 18 when you pass on - it's wise to re-evaluate your strategy.

TAKEAWAY #3

YOU CAN NOW MAKE TAX-DEDUCTIBLE IRA CONTRIBUTION BEYOND AGE 70

Historically, the tax code didn't allow retirees over the age of 70 to make tax-deductible contributions to retirement accounts. This meant that retirees working into their 70's had few options when it came to tax-deferred savings growth. The SECURE Act has changed this, by permitting these tax-deductible contributions for Americans age 70 and up.

This change was driven by changing demographics within the United States. According to the Bureau of Labor Statistics, labor force participation by those between the ages of 65 and 74 will reach 32% by 2022 - up from just 20% in 2002.[2]

FINAL THOUGHTS

The SECURE Act brought some big changes to retirement planning. While these three items were the important ones for American retirees, there was a lot in the bill that we didn't cover here. If you'd like a custom analysis of your retirement plan and how the SECURE Act might change it, we invite you to connect with our team.

1 MarketWatch, Secure Act includes one critical tax change 'that will send estate planners reeling' (source)

2 AARP, Take This Job and Love It! (source)

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