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Four Major Highlights Of The SECURE Act

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The Setting Every Community Up for Retirement Enhancement Act, better known as the SECURE Act, was signed into law on Friday, December 20. The SECURE Act is one of the most dynamic changes to retirement legislation since the Pension Protection Act of 2006, and addresses a wide variety of retirement planning topics.

Given that many of these changes became effective on January 1, 2020, there are a few key areas that may immediately affect your retirement plan. Here are four major changes created by the new law:

1.) Required Minimum Distributions (RMDs) Will Start at Age 72, Not Age 70½

Starting January 1, 2020, you will need to start withdrawing money from your traditional IRAs and employer tax deferred accounts such as 401(k)s, 403(b)s, and 457s at age 72, a change from the current withdrawal requirement of age 70½.

If you turned age 70½ in 2019 (born prior to July 1, 1949), you will still need to take your RMD for 2019 no later than April 1, 2020. If you are currently receiving RMDs (or should be) because you are over age 70½, you must continue taking these RMDs. Only those who will turn 70½ (born on or after July 1, 1949) in 2020 or later may wait until age 72 to begin taking required distributions.

2.) You Can Contribute to Your Traditional IRA After Age 70½

Beginning in the 2020 tax year, the new law will allow you to contribute to your traditional IRA in the year you turn 70½ and beyond, provided you have earned income. You still may not make 2019 (prior year) traditional IRA contributions if you are over 70½.

3.) Inherited Retirement Accounts

Upon death of the account owner, distributions to non-spouse individual beneficiaries must be made within 10 years. The current rules that allowed a non-spouse IRA beneficiary to "stretch" required minimum distributions (RMDs) from an inherited account over their own lifetime (and potentially allow the funds to grow tax-free for decades) has been eliminated. The rule applies to inherited funds in a 401(k) account or other defined contribution plan as well.

There are exceptions for spouses, disabled individuals, and individuals not more than 10 years younger than the account owner. Minor children who are beneficiaries of IRA accounts also have a special exception to the 10-year rule, but only until they reach the age of majority.

If you've already inherited a stretch IRA, rest easy. The changes from the bill that close loopholes that allowed stretch IRAs applies to beneficiaries of someone who dies after the end of 2019.

4.) Adoption/Birth Expenses

The new law allows penalty-free withdrawals from retirement plans for birth or adoption expenses, up to $5,000 limit would apply to each parent, including those who have adopted children. So technically, a couple could take out up to $10,000 from their retirement savings, as long as they both have separate accounts in their own names.

Though there are many more aspects and provisions to the new law, we have highlighted some of the most pertinent. As always, it is best to consult with a professional financial planner to ensure you are keeping abreast and adhering to the latest rules as they apply to your overall financial and retirement plan.