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# 11 Key Financial Planning Takeaways of the SECURE Act

Passed in December 2019, the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 has wide-reaching impacts on retirement savings and estate planning for many Americans. The SECURE Act broadens the effectiveness of individual retirement accounts and employer-sponsored retirement savings plans. It also expands access to tax-advantaged retirement savings accounts and, ultimately, aims to help Americans save enough for a secure retirement. The SECURE Act's provisions are effective immediately unless otherwise noted.

## OVERVIEW

The first major retirement income overhaul in more than a decade was included in a spending bill approved by Congress and signed by President Donald Trump at the end of 2019. The SECURE Act marks a dramatic change to tax law that could have an impact on many Americans in 2020 and beyond.

Given the new tax and retirement rules, you and your advisor will need to consider the long-term tax implications of these changes and work to update your retirement and estate plans. This document highlights some key financial planning takeaways of the SECURE Act and how they impact you.

### KEY TAKEAWAYS

Review beneficiary designations on your IRA with your tax advisor

Business owners can consider establishing a retirement plan or making changes to a current plan

## IMPLICATIONS FOR INDIVIDUAL INVESTORS

### 1. REMOVAL OF "STRETCH" INHERITED IRA PROVISIONS

The SECURE Act made significant changes to inherited retirement plans, including 401(k)s, traditional IRAs and Roth IRAs. Under the previous rules, non-spousal beneficiaries of these accounts could typically spread distributions over their life expectancy. The new law includes a tax-generating provision that would require most beneficiaries to distribute their inherited IRA account over a 10-year period. This 10-year period ends on December 31 of the 10-year anniversary of the death of the original account owner.

The new 10-year rule will affect beneficiaries of account owners that pass in 2020 and beyond. Beneficiaries of account owners who passed away in 2019 and earlier are grandfathered under the old rules and may continue to stretch distributions over their life expectancy. In addition to those individuals grandfathered in, there are other exceptions to the new 10-year rule. They include spousal beneficiaries, chronically ill, the disabled and individuals not more than 10 years younger than the original account owner. These individuals may follow the prior rules and stretch distributions (spouses may also Treat As Own). Furthermore, minor child beneficiaries of the decedent may use the stretch until they reach the age of majority and will then follow the 10-year rule.

Individuals that have named trusts (known as "pass-through trusts" or "conduit trusts") as beneficiaries of retirement accounts will likely need to seek legal counsel to review the document. Pass-through or see-through trusts often have language that allows trust beneficiaries to only receive the required minimum distribution (RMD) for the year among other considerations. Under the SECURE Act, there are no required distributions until the 10th year. This could create a situation where there is only one distribution allowed in the final year and could create a substantial tax liability.

The new 10-year rule will accelerate the distribution of inherited accounts for many large IRAs and retirement plans.

### 2. INCREASE REQUIRED MINIMUM DISTRIBUTION AGES

Under the old rules, most individuals were required to take RMDs from their traditional IRA and 401(k) accounts starting in the year they turn 70 1/2. The SECURE Act now delays this required beginning date to age 72. Individuals who turned 70 1/2 in 2019 are required to satisfy their RMD for that year and will have to continue taking RMDs each year. Individuals who turn 70 1/2 in 2020 and beyond (born on or after July 1, 1949) may delay taking RMDs until age 72. Furthermore, those individuals may still wait until April 1 in the year following the year they turn 72 to take their first distribution.

### 3. REMOVAL OF AGE LIMITATION ON IRA CONTRIBUTIONS

The SECURE Act repeals the age limitation for traditional IRA contributions, which was 70 1/2. This is significant, particularly for those who continue to work later in life, and it aligns with contribution rules currently in place for 401(k)s and Roth IRAs.

### 4. PENALTY-FREE DISTRIBUTIONS FOR BIRTH OF CHILD OR ADOPTION

A new rule allows an aggregate amount of $5,000 per parent to be distributed from a retirement plan without the 10% penalty in the event of a qualified birth or adoption. The distribution would need to occur within one year of the adoption becoming final or the child's birth.

### 5. KIDDIE TAX

The Tax Cuts and Jobs Act of 2017 changed the taxation of unearned income of some children from the parent's marginal rate to estate and trust rates. The SECURE Act has reversed this, and unearned income for some children in 2020 and beyond will once again be taxed at the parent's marginal rate. Furthermore, parents have the option of applying the new kiddie tax rules for 2018 and 2019.

### 6. INCREASE IN QUALIFIED EXPENSES FOR 529 PLANS

The SECURE Act increased the list of qualified expenses of 529 plan distributions. Notably, distributions for apprenticeship programs and "qualified education loan repayments" are now allowed. Up to $10,000 may be distributed to pay both principal and interest for qualified education loans for the plan beneficiary and an additional $10,000 may be used to repay loans for each of the plan beneficiary's siblings.

## IMPLICATIONS FOR BUSINESS OWNERS

### 7. TAX CREDIT FOR AUTOMATIC ENROLLMENT

The SECURE Act created a new $500 tax credit for small businesses that use an automatic enrollment arrangement in their retirement plans. Automatic enrollment increases plan participation.

### 8. TAX CREDIT FOR ESTABLISHING A RETIREMENT PLAN

Small businesses were eligible for a $500 credit for the start-up costs of establishing a retirement plan. The SECURE Act substantially increases the available credit amount for small businesses that open a retirement plan. Depending on the small business, the potential credit could be as much as $5,000.

### 9. LIFETIME INCOME DISCLOSURE FOR DEFINED CONTRIBUTION PLANS

The SECURE Act requires that defined contribution plans deliver a lifetime income disclosure to participants at least once every 12 months. This lifetime income disclosure would essentially show how much income the lump sum balance in the retirement account could generate. The methodology for calculating lifetime income is still being evaluated.

### 10. INCREASE ANNUITY OPTIONS INSIDE RETIREMENT PLANS

Today, many 401(k)s avoid annuities, in part because of liability concerns. The new rules ease this concern, potentially paving the way for more annuities to be offered inside of retirement plans.

### 11. INCREASE SMALL EMPLOYER ACCESS TO RETIREMENT PLANS

Effective January 1, 2021, the SECURE Act reduces fiduciary liability concern and cost among small employers with multiple employer plans (MEP) or pooled employer plans (PEP), eliminating the "bad apple" rule and making it easier for them to set up and offer 401(k) plans. Currently, many small employers offer no retirement savings, period.



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INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM