# Understanding the SECURE Act

The Setting Every Community Up for Retirement Enhancement (SECURE) Act became law on Dec 20, 2019. The Act is meant to improve savings habits in the United States. It includes changes to retirement and college savings accounts. Both areas add some new financial planning opportunities and challenges.

Here are some of the changes:

**The Age restriction on traditional IRA contributions has been removed.** Before the act, additions to IRAs were not allowed once an individual reached age 70 ½. Starting this year with 2020 contributions, anyone at any age may make contributions if they meet the income requirements.

**Qualified Charitable Distributions (QCDs) have a new limit.** Prior to the SECURE Act, QCDs were limited to $100,000 per year. A new limitation reduces this amount… but consult a CPA. It's complicated.

**Required Minimum Distributions (RMDs) now begin at age 72.** This change only affects those who turn 70 ½ after 2019. Those who started RMDs last year remain in that status and must comply with prior rules. Those who did not reach 70 ½ in 2019 may delay their first RMD until age 72.

**The "Stretch IRA" is gone.** Under prior rules, inheritors of IRAs were able to stretch out withdrawals over their own lifetimes with RMDs. Under the SECURE Act, nearly all non-spouse IRA inheritors must remove all funds by the end of the tenth year. All funds may be removed in the first year, tenth year, or any year in between… but it will not go beyond the 10th year. This presents a significant challenge for those with high-value retirement accounts who don't want to leave a tax burden to their heirs.

**529 Plans can now help Repay Student Loan Debt.** The SECURE Act allows families to take tax-free 529 plan distributions for student loan repayment. The Act includes an aggregate lifetime limit of $10,000 in qualified student loan repayments per 529 plan beneficiary and each of the beneficiary's siblings. A 529 plan account owner may change the 529 plan beneficiary within the family at any time without tax consequences. This presents a planning opportunity. Since 529 assets affect financial aid eligibility, holding back some of the funds in a sibling's account to be used to pay down future loans might be helpful.

The SECURE Act means that IRA owners have more flexibility and IRA inheritors have less. 529 Plans have greater flexibility. Since retirement accounts tend to be the greatest investment accounts of most investors, it presents a problem for estate planning. Inheriting a sizable IRA may result in pushing many people into higher tax brackets at multiple points during the ten-year distribution period.

If IRA balances are held primarily for the benefit of heirs, consider some alternative planning strategies.

**Roth IRA conversions may take on greater importance to the estate plan.** In this scenario, the IRA owner accepts the tax burden so their heirs do not inherit one. This solution may not be ideal for high-earners or those concerned about higher taxes during retirement. Bear in mind, that conversions must be held for five years before becoming tax-free at distribution. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.

**Insurance products become greater planning tools.** Funds removed from IRAs increase taxable income to the IRA owner. If there is room for more income before entering a higher tax bracket or RMDs provide more income than is needed, the excess may be used to pay premiums on a life insurance policy. At the death of the owner, heirs will have a tax-free insurance benefit in addition to whatever remains in the IRA. This solution requires the insured to be insurable.

**Spend down the IRA first.** Many savers have more accounts available than just retirement assets. Taxable assets receive a step-up in cost-basis at the death of the account owner and are very tax-efficient for heirs. If the goal is to create a tax-efficient estate plan, consider using the retirement accounts as primary retirement income vehicles.

The SECURE Act has a much broader reach than just those areas mentioned here and the Federal government is working on additional regulations. Modifications to financial regulations affect individuals and organizations in varied and, sometimes, unforeseen ways. Make an appointment to meet with your financial advisor to discuss your opportunities and challenges in times of change.

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