HELLO SECURE ACT, GOOD-BYE STRETCH IRA

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A $1.4 trillion year-end spending bill was signed into law on December 20, 2019 in order to keep the government running. Tucked away inside this mammoth piece of legislation is the Setting Every Community Up for Retirement Enhancement (SECURE) Act, which became effective January 1, 2020.

This new law includes significant changes to retirement accounts, including:

Age Limit Eliminated for Traditional IRA Contributions - Beginning in 2020, the new law eliminates the age limit for traditional IRA contributions (formerly 70 ½). Now, those who are still working can continue to contribute to a traditional IRA, regardless of their age.

RMD Age Raised to 72 - The SECURE Act also raises the age for beginning RMDs to 72 for all retirement accounts subject to RMDs. IRA owners reaching age 70 ½ in 2020 catch a break and will not have to take their first RMD in 2020 now that the RMD deadline has been extended to age 72.

New Exception to the 10% Penalty for Birth or Adoption - The SECURE Act adds a new 10% penalty exception for birth or adoption, but the distribution is still subject to tax. It is limited to $5,000 over a lifetime. The birth or adoption distribution amount can be repaid at any future time (re-contributed back to any retirement account).

IRA Contributions with Fellowship and Stipend Payments - Additionally, the new law allows taxable non-tuition fellowship and stipend payments to be treated as compensation to qualify for an IRA (or Roth IRA) contribution.

Employer Liability Protection for Annuities in Plans - The SECURE Act provides a safe harbor for employer liability protection for offering annuities in an employer plan. This is expected to open the door for more annuity products to be available as investment choices in employer plans.

Good-Bye, Stretch IRA - Beginning for deaths after December 31, 2019, the stretch IRA is replaced with a ten-year rule for the vast majority of beneficiaries. The rule requires accounts to be emptied by the end of the tenth year following the year of death. There are no annual RMDs. Instead, the only RMD on an inherited IRA is the balance at the end of the 10 years after death. For deaths in 2019 or prior years, the old rules would remain in place.

There are five classes of "eligible designated beneficiaries" who are exempt from the 10-year post-death payout rule and can still stretch RMDs over life expectancy. These include surviving spouses, minor children, disabled individuals, the chronically ill, and beneficiaries not more than ten years younger than the IRA owner.

The new rules mean a new landscape when it comes to retirement and estate planning. How will they affect you? You may have some new opportunities to make IRA contributions or be able to access your retirement funds without penalty. You may be able to delay taking RMDs a little bit longer. You will also want to give some serious consideration to how the elimination of the stretch will impact you. Reviewing your beneficiary designation form is a good place to start.