Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

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5 implications of the SECURE Act

Just before Christmas 2019, Congress passed and the president signed the SECURE Act, the most significant update to retirement law in over a decade. Here are the five biggest implications:

1. Elimination of Stretch IRAs for non-spouse inheritors:
- Beginning in 2020, new non-spouse inheritors of retirement accounts will fall under the 10-Year Rule. This mandates that all inherited retirement assets must be distributed by the end of the 10^{th} year following the death of the original IRA account owner. (There are no mandatory distributions during the first nine years, however.)
- For beneficiaries who inherited an IRA from an original owner who passed away prior to January 1, 2020, your distribution schedule will not change.
- A spouse can still treat an Inherited IRA as their own, either by rolling over the IRA into their own name or by taking Required Minimum Distributions (RMDs) based on their own lifetime.
- Additional exemptions apply to beneficiaries who are disabled, chronically ill, certain minor children, and others.

2. Beginning date for RMDs moved to age 72:
- People who turn 70.5 in 2020 or later will no longer need to begin RMDs until age 72.
- Importantly, an individual who turned 70.5 in 2019 must still begin their RMDs by April 1, 2020 and continue taking them each year thereafter.

3. IRA contributions allowed past age 70.5:
- Under prior law, IRA contributions were not allowed during or past the year the IRA account owner turned 70.5, even if account owner was still working.
- Under the SECURE Act, IRA contributions can be made so long as there is earned income to cover the contribution.
- Spousal IRA contributions can be made for non-working spouses as well.

4. Childbirth and adoption are new IRA early withdrawal exemptions:
- Up to $5,000 can be withdrawn penalty-free from an IRA or other retirement account to help pay for the costs associated with childbirth or the adoption of a child.
- The $5,000 limit is per child, so this exemption can be used more than once.
- Additionally, if both parents have a retirement account, each can withdraw $5,000 per event (childbirth or adoption).
- Importantly, these withdrawals must be made *after* the qualifying event occurs.
- Parents can pay this back to the account the monies came out of if they are so inclined without running afoul of the contribution rules.

5. Increased tax credit for small businesses setting up a new retirement plan:
- The SECURE Act raises the tax credit for small businesses who establish a retirement plan from a max of $500 for up to three years to $5,000 for up to three years.
- This credit is meant to offset the startup costs of establishing a retirement plan.
- Small businesses are defined as having 100 or fewer employees receiving $5,000 or more of compensation.
- There is also the potential for a separate tax credit (up to $500) for small business retirement plans that adopt auto enrollment.

The SECURE Act addresses several other retirement-related topics, including changes to the Kiddie Tax rules, allowing for annuities in 401(k) plans, addressing multiple employer retirement plans (MEPs), and an expansion of acceptable uses for 529 account monies. For a more in-depth reading on the SECURE Act, we would suggest the following two articles we used as source material for this post:

https://www.kitces.com/blog/secure-act-2019-stretch-ira-rmd-effective-date-mep-auto-enrollment/

https://www.marketwatch.com/story/with-president-trumps-signature-the-secure-act-is-passed-here-are-the-most-important-things-to-know-2019-12-21?mod=home-page