How Does the SECURE Act Impact My Retirement Plan?

The SECURE Act (Setting Every Community up for Retirement Enhancement Act of 2019) was voted on by the House of Representatives (417-3 in favor) in May of 2019 and the Senate (71-23 in favor) in December of 2019 as part of a $1.4 trillion budget deal signed into law by President Trump on December 20, 2019.

The Act becomes effective on January 1, 2020 and impacts both corporate retirement plans and individuals planning for retirement.

Below I have highlighted some of the key takeaways from the bill as well as how it may impact your organization and your personal savings.

Impact on 401(k) Retirement Plans

- The SECURE Act now allows employers to offer annuity options within the Plan (Insurance Companies will have a Fiduciary Responsibility to offer suitable options to participants).
- The Act requires Plan Administrators to provide lifetime income disclosure statements annually to Plan participants.
- Previously, employers did not have to include workers who worked less than 1,000 hours every year. The SECURE Act drops the threshold for eligibility down to 1 full year of service with 1,000 hours worked or 3 consecutive years with at least 500 hours.

Required Minimum Distribution (RMD) and the Contribution Ages are Raised:

- The current withdrawal age has been changed from 70 ½ to 72.
- The ability to make IRA contributions beyond 70 ½ has been extended as long as the individual is working (currently, IRA contributions are suspended at age 70 ½). Roth IRAs remain unchanged without age-based restrictions.

How does the Bill Impact Estate Planning (Stretch IRA)?

- The SECURE Act eliminates the “Stretch IRA” which has been an estate planning method that IRA beneficiaries have used for years to stretch their inherited IRA account RMDs over the course of their own life expectancy.
- Non-spouse inherited IRA beneficiaries must withdraw all assets from the account within 10 years (no annual requirement, but the full amount must be distributed by the 10^{th} year). Exempt from this rule include spouses, minors, disabled and a few other scenarios.

Penalty-Free Withdrawals:

- The SECURE Act will allow additional penalty-free withdrawals for child birth and adoption costs within 401(k) & IRA Plans:
  - Up to $5,000 without paying the 10% early withdrawal penalty (each spouse)
  - Distributions are still treated as taxable income
  - Funds must be withdrawn from the account within one year from the date the child is born, or adoption finalized.

Incentives for Businesses to Start a 401(k) Plan

- The Act includes incentives for employers to start a 401(k) retirement program. It allows small organization to band together through Multiple Employer Plans (MEPs). The Act increases the credit from $500/year up to $5,000/year for three years, meaning the maximum credit is now $15,000 over three years.

- If the new plan automatically enrolls employees into the plan, the employer will get an additional annual credit for start-up costs of $500 per year.

With recent legislative changes in the retirement plan space, now is an important time to audit your Plan to make sure that Plan Sponsors and Plan Fiduciaries have a concrete understanding of the new rules and how they impact their Plan.

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Anthony works with Banks & Businesses to design, manage and oversee meaningful 401(k) Retirement programs. He has worked in the Financial & Retirement Planning industry since 2006 and has helped many organizations design and service plans to create successful retirement strategies for their employees. His emphasis on consistently monitoring fiduciary processes such as fee benchmarking, investment due diligence and education programs has improved the retirement plans of many clients.

He is a frequent speaker on retirement topics; a CERTIFIED FINANCIAL PLANNER (CFP®); and is a graduate of Rutgers University in New Brunswick, NJ where he earned a Bachelor of Science in Business Economics.

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