



As we expected, The Setting Every Community Up for Retirement (SECURE) Act was signed into law last month and became effective January 1, 2020. The SECURE Act makes numerous changes to retirement planning as we know it.

For starters, the required minimum distribution (RMD) age is increasing from 70 ½ to 72 for individuals who attain age 70 ½ after 2019. This is a significant change as it allows investors to have another 18 months to build retirement accounts.

Second, the SECURE Act repeals the current prohibition on contributions to traditional IRAs after the owner attains age 70 ½ as long as the owner has earned income in excess of the contribution amount. Again, this change will enable working individuals who turn 70 ½ this year to continue to grow their nest egg beyond a specified age.

For those with large retirement plan balances, the biggest change the SECURE Act presents is the doing away with 'Stretch IRAs' for non-spouse beneficiaries. The new law will no longer allow non-spouse beneficiaries who inherit a retirement account to "stretch" out distributions over the beneficiary's life when liquidating the account. Instead, the law requires liquidations within 10 years of the newly inherited account, which will inevitably increase taxes and decrease the value of the inherited IRA. There are a few exceptions, however, such as when the beneficiary is the surviving spouse, disabled or chronically ill, not more than 10 years younger than the deceased IRA owner, or a child who hasn't reached maturity age.

We believe this restriction on the Stretch IRA shines light on the importance of advance tax planning. In fact, the need for creative tax planning could grow to an all-time high. Many families will want to review strategies like Roth conversions, advance distribution planning, beneficiary changes and life insurance to fulfill their legacy goals.

The SECURE Act contains several other provisions aimed at enhancing retirement planning, such as permitting penalty-free withdrawals for the birth or adoption of a child, letting part-time employees have access to 401(k) plans, expanding annuity options within 401(k) plans and increasing the tax credit for small businesses offering retirement plans.

Please feel free to contact us with any questions concerning this new law and its effect on your estate plan. As always, you should consult with your tax professional before implementing any of the aforesaid tax strategies.

