

What you need to know about the SECURE Act

Congress just passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act late in December, significantly changing the rules for Individual Retirement Accounts (IRAs).

Among the changes in the bill is an increase in the IRA Required Minimum Distribution Age. Under the old rules, an owner of an IRA was required to begin taking distributions upon reaching the age of 70-1/2. The SECURE Act pushes the age out to 72. If you did not turn 70-1/2 by the end of 2019, you are not required to take a minimum distribution until the age of 72. If you turned 70-1/2 in 2019, you are under the old rules and need to begin taking your required minimum distribution.

Something to note: even if you are not taking required minimum distributions until you reach age 72, you can still make qualified charitable distributions from your IRA upon reaching the age of 70-1/2.

Also in the act is a provision that changes the "stretch" IRA rules. This change does not affect spouses; spouses named as beneficiaries continue to have the option of treating the inherited IRA as their own. Prior to this year, for the most part, an individual beneficiary inheriting an IRA from the deceased IRA owner could take distributions over their lifetime, thus stretching out the distribution timeline and accompanying tax burden. This will no longer be the case. Under the SECURE Act, non-spouse beneficiaries, with a few specific exceptions, will need to completely distribute the IRA within 10 years.

In addition to the surviving spouse, exceptions to the 10-year timeframe for distribution include minor children of the IRA owner (until they hit the age of majority), the chronically ill, the disabled, and those no more than ten years younger than the decedent.

Given these changes to the law, it will be very important to review your IRA beneficiary designations. It could be beneficial to think about naming charities as beneficiaries of your IRA, or a portion of the IRA, and leaving other assets to your family. If a trust is the beneficiary of your IRA, it will be very important to review the language in your trust addressing IRA distributions. Many individuals created "see-through" trusts to receive IRA distributions over a beneficiary's lifetime; these trust provisions may need to be reviewed and reworked due to the new rules. There are still good reasons to have trusts as IRA beneficiaries. You will want to understand the tax implications of doing so.

Yes, the IRA rules just got a bit more complicated. Please know that this is not something you have to figure out alone. Your accountant, your estate planning attorney, and your Covenant Trust financial services representative are ready to join you in figuring out what is best for your specific situation. Please give us a call.

Steve Allison
Financial Services Rep
847-583-3264

srallison@covenanttrust.com

Erik Carlson
Financial Services Rep
847-583-3280

ewcarlson@covenanttrust.com

Karlene Crabtree
Client Services Rep
847-583-3277

kmcrabtree@covenanttrust.com

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