

How the SECURE Act Could Affect Retirement Planning

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Late last year, landmark legislation was signed into law that will impact retirement planning for millions of Americans. The Setting Every Community Up for Retirement Enhancement (SECURE) Act will make it easier to save money for a financially secure retirement.

The SECURE Act's Beneficial Provisions

Here are some of the [SECURE Act's](#) most consequential provisions:

Many part-time employees will become eligible for plan participation. Starting in 2021, part-time employees who worked at least 1,000 hours during the previous year must be allowed to participate in a 401(k) plan at work if one is offered. The same goes for part-timers who have worked at least 500 hours per year for three consecutive years.

The age limit for contributing money to traditional IRAs has been eliminated. Before 2020, the last year for which you were eligible to contribute to a traditional IRA was the year prior to reaching age 70½. The SECURE Act removes this ceiling – you can now make traditional IRA contributions indefinitely if you're otherwise eligible.

This provision could benefit the growing number of people willing to work into their 70s and even 80s. By continuing to contribute money to their traditional IRAs, these individuals could take advantage of the contribution's tax benefit.

The age when required minimum distributions (RMDs) must begin has been raised. Federal law requires owners of traditional IRAs and, generally, owners of employer-sponsored defined contribution plans such as 401(k)s to start making withdrawals when they reach a certain age. Previously, these RMDs had to begin after age 70½. The SECURE Act raises the age to 72 for taxpayers who didn't turn age 70½ before Jan. 1, 2020.

Affected taxpayers who don't need to make withdrawals to cover living expenses can keep more money in their retirement plans a little longer. This will allow the money to continue growing tax-deferred for longer, and let you delay the payment of income taxes that's due upon withdrawal of traditional retirement plan funds.

Employers offering annuities as a plan investment option will enjoy greater protection. Many retirees like the income certainty offered by annuities, but some employers have been hesitant to offer them due to liability concerns. The SECURE Act provides more liability protection to plan sponsors that choose to offer annuity contracts. This could result in more employers offering these popular options in their plan's investment menu.

It'll become easier for employers to create multiple employer plans (MEPs). With these retirement plans, small businesses join together to offer a plan, which lowers administrative costs. The SECURE Act relaxes rules that have made forming MEPs difficult for many small businesses.

Starting next year, these businesses will no longer be required to have a common connection or similarity as they have in the past. This provision could increase retirement plan access for employees who work for small businesses that have been unable to offer a plan.

Stretch IRA Eliminated

The SECURE Act contains at least one provision that isn't taxpayer beneficial. The legislation eliminates a popular estate planning technique known as the "stretch IRA."

With this technique, beneficiaries extend distributions from inherited IRAs over their lifetime. Doing so keeps RMDs to a minimum, allowing the account to continue to grow tax-deferred and reducing the current income tax burden by spreading out the tax liability over many years.

Under the SECURE Act, in most instances, funds from inherited IRAs must be fully withdrawn within 10 years of the original account owner's death. This provision affects account owners who die after Dec. 31, 2019. Certain beneficiaries, such as surviving spouses, minor children and someone who is disabled or chronically ill, are exempt from the 10-year rule. Note that minors are exempt only if they're the child of the account owner, and only until reaching the age of majority, at which time the 10-year period will begin.

Seek Guidance

These are just some of the SECURE Act's many provisions. Contact us at 479.484.5740 or klejong@landmarkcpas.com to talk about how the legislation could affect your retirement plans.