What You Need to Know About

The SECURE Act and Your Retirement Savings

On December 20, 2019, President Trump signed into law the "Setting Every Community Up for Retirement Enhancement" Act (SECURE Act) as part of the Further Consolidated Appropriations Act, 2020 (H.R. 1865). The SECURE Act expands opportunities for individuals to increase their retirement savings.

The following is an overview of some of the major changes impacting individuals. Contact your Security Mutual life insurance advisor to learn how these changes will affect your planning opportunities.

- **Repeal of Maximum Age for Traditional IRA Contributions.** Prior to the SECURE ACT, you were prohibited from contributing to a traditional IRA after age 70 ½, even if you were still working. For tax years beginning after December 31, 2019, that prohibition has now been repealed. As more people continue to work beyond traditional retirement age, you can continue funding your traditional IRA.
- **Increase in Age for Required Beginning Date (RBD) for Mandatory Distributions.** Prior to the SECURE ACT, IRA owners attaining age 70 ½ were required to take mandatory distributions ("required minimum distributions" or "RMDs") by April 1 of the year following the calendar year in which they attained age 70 ½. That created confusion because the age of 70 ½ seemed arbitrary and required extra calculation. Under the SECURE Act, the RBD for IRAs is now April 1 following the calendar year in which the IRA owner attains age 72. For employer-sponsored retirement plans such as a 401(k) plan, if the employee is not a 5 percent owner of the company, the RBD is April 1 following the latter of the calendar year in which the employee attains age 72 or retires. However, for an employee who is a 5 percent owner, the RBD is the same as for IRAs, even if the employee continues to work past age 72. This will make it easier to calculate and remember, and it acknowledges that people are working past traditional retirement age.
- **Post-Death Required Minimum Distribution Rules Are Modified.** Prior to the SECURE Act, IRA owners could leave their traditional IRAs, upon death, to their beneficiaries. Spouses could take the IRA as his or her own and continue it. Non-spouses could take RMDs over their life expectancies. For young beneficiaries, that allowed for many years and potentially many decades of continued tax-deferred growth. This was known as the Stretch IRA concept used by many who did not need the deceased owner's IRA assets for their own financial needs.

  In order to raise income tax revenue, the SECURE Act has eliminated the Stretch IRA concept. For IRA owners and employees of defined contribution plans such as a 401(k) plan who die after December 31, 2019, and do not leave a spouse as an "eligible designated beneficiary," the remaining account balance must be distributed to designated beneficiaries **within 10 years** after the date of death. The SECURE Act notes that "eligible designated beneficiaries" include the spouse, a disabled or chronically ill beneficiary and a beneficiary who is not more than 10 years younger than the decedent IRA owner.

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Eligible designated beneficiaries are not subject to the 10-year distribution rule.

One way to counteract that loss of years of continued tax-deferred growth is through the purchase of life insurance using the increased RMD distribution. The life insurance proceeds can replace what the account would have grown to and left to successive generations. In addition, converting traditional IRAs to Roth IRAs, which may yield tax-free distributions when the IRA owner dies, may be strategies to consider more closely. Discuss with your Security Mutual life insurance advisor how these strategies may work in your situation.

- **Non-Tuition Fellowship and Stipend Payments Are Compensation for IRA Purposes.** For individuals who are pursuing graduate or post-doctoral studies and research, and receive taxable awards such as non-tuition fellowships or stipends, the SECURE Act now allows these awards to be treated as compensation for the purposes of contributing to an IRA beginning for tax years after December 31, 2019.
- **Penalty-Free Plan Withdrawals for Births or Adoptions.** The SECURE Act provides for penalty-free withdrawals from retirement plans for a "qualified birth or adoption distribution" made after December 31, 2019. The maximum aggregate distribution amount for any individual is $5,000. So spouses may separately receive a $5,000 distribution.

While this appears to be a welcome development, parents know that these amounts are minimal with respect to the cost of raising a child. However, with many years of tax-deferred growth, withdrawals of these amounts may have a significant impact on retirement savings, so careful deliberation should be made prior to making such a withdrawal. Distributions or loans from cash value life insurance policies[1] may be a better source to help with expenses incurred from a newborn child or adoption. As with any significant life event, the addition of a child to the household is enough reason to reexamine your life insurance needs.

As you can see, this is just a summary of some of the changes made to IRAs and retirement accounts by the SECURE Act. There are many more provisions that may impact your individual situation. Please contact your Security Mutual life insurance advisor to discuss how these changes apply to your retirement savings and impact your other financial goals and objectives.

[1] Permanent life insurance policies develop cash values which may be available to the policyowner. Policy loans reduce the policy's death benefit and cash value, but may be repaid at any time. Loans from the policy may cause the policy to lapse. Lapse of a policy with a loan may have tax consequences. Life insurance policies contain exclusions, limitations and terms for keeping them in force.

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