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# The SECURE Act

Long-established retirement account rules are changing. The Setting Every Community Up for Retirement Enhancement (SECURE) Act will be effective as of January 1, 2020. With it, comes some of the biggest changes to retirement savings law in recent years. While the new rules don't appear to amount to a massive upheaval, the SECURE Act will require a change in strategy for many Americans. For others, it may reveal new opportunities.

**1) Limits on Stretch IRAs** - The legislation "modifies" the required minimum distribution rules in regard to defined contribution plans and Individual Retirement Account (IRA) balances upon the death of the account owner. Under the new rules, distributions to non-spouse beneficiaries are generally required to be distributed by the end of the 10th calendar year following the year of the account owner's death.[1]

It's important to highlight that the new rule does not require the non-spouse beneficiary to take withdrawals during the 10-year period. But all the money must be withdrawn by the end of the 10th calendar year following the inheritance.

A surviving spouse of the IRA owner, disabled or chronically ill individuals, individuals who are not more than 10 years younger than the IRA owner, and child of the IRA owner who has not reached the age of majority may have other minimum distribution requirements.

Let's say that a person has a hypothetical $1 million IRA. Under the new law, your non-spouse beneficiary may want to consider taking at least $100,000 a year for 10 years regardless of their age. For example, say you are leaving your IRA to a 50-year-old child. They must take all the money from the IRA by the time they reach age 61. Prior to the rule change, a 50-year-old child could "stretch" the money over their expected lifetime, or roughly 30 more years.

**2) IRA Contributions and Distributions** - Another major change is the removal of the age limit for traditional IRA contributions. Before the SECURE Act, you were required to stop making contributions at age 70½. Now, you can continue to make contributions as long as you meet the earned-income requirement.[2]

Also, as part of the Act, you are mandated to begin taking required minimum distributions (RMDs) from a traditional IRA at age 72, an increase from the prior 70½. Allowing money to remain in a tax-deferred account for an additional 18 months (before needing to take an RMD) may alter some previous projections of your retirement income.[2] (continued on page 2)

# 2019 IRA Deadlines Are Approaching

Here is what you need to know: Financially, many of us associate April with taxes – but we should also associate April with important IRA deadlines.

April 1, 2020 is the deadline to take your Required Minimum Distribution (RMD) from certain individual retirement accounts.

A new federal law must be noted here. The Setting Every Community Up for Retirement Enhancement (SECURE) ACT, passed late in 2019, changed the age for the initial RMD for traditional IRAs and traditional workplace retirement plans. It lifted this age from 70½ to 72, effective as of 2020.[1]

So, if you were not 70½ or older when 2019 ended, you can wait to take your first RMD until age 72. If you *were* 70½ at the end of 2019, the old rules still apply, and your initial RMD deadline is April 1, 2020. Your second RMD will be due on December 31, 2020.[1,2]

Keep in mind that withdrawals from traditional, SIMPLE, and SEP-IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty.

To qualify for the tax-free and penalty-free withdrawal of earnings from a Roth IRA, your Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain other circumstances, such as a result of the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

April 15, 2020 is the deadline for making annual contributions to a traditional IRA, Roth IRA, and certain other retirement accounts.[3]

The earlier you make your annual IRA contribution, the better. You can make a yearly IRA contribution any time between January 1 of the current year and April 15 of the next year. So, the contribution window for 2019 started on January 1, 2019 and ends on April 15, 2020. Accordingly, you can make your IRA contribution for 2020 any time from January 1, 2020 to April 15, 2021.[4]

You may help manage your income tax bill if you are eligible to contribute to a traditional IRA. To get the full tax deduction for your 2019 traditional IRA contribution, you have to meet one or more of these financial conditions:

- You aren't eligible to participate in a workplace retirement plan.
- You are eligible to participate in a workplace retirement plan, but you are a single filer or head of household with Modified Adjusted Gross Income (MAGI) of $64,000 or less. (continued on page 2)

The SECURE Act's rule change for RMDs only affects Americans turning 70½ in 2020. For these taxpayers, RMDs will become mandatory at age 72. If you meet this criterion, your first RMD won't be necessary until April 1 of the year after you reach 72.[2]

**3) Multiple Employer Retirement Plans for Small Business -** In terms of wide-ranging potential, the SECURE Act may offer its biggest change in the realm of multi-employer retirement plans. Previously, multiple employer plans were only open to employers within the same field or sharing some other "common characteristics." Now, small businesses have the opportunity to buy into larger plans alongside other small businesses, without the prior limitations. This opens small businesses to a much wider field of options.[1]

Another big change for small business employer plans comes for part-time employees. Before the SECURE Act, these retirement plans were not offered to employees who worked fewer than 1,000 hours in a year. Now, the door is open for employees who have either worked 1,000 hours in the space of one full year or to those who have worked at least 500 hours per year for three consecutive years.[2]

While the SECURE Act represents some of the most significant changes we have seen to the laws governing financial saving for retirement, it's important to remember that these changes have been anticipated for a while now. If you have questions or concerns, reach out to your trusted financial professional.

Citations

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# 2019 IRA Deadlines Are Approaching

*(continued from page 1)*

Or if you file jointly with your spouse, your combined MAGI is $103,000 or less.[5]

- You aren't eligible to participate in a workplace retirement plan, but your spouse is eligible and your combined 2019 gross income is $193,000 or less.[6]

Thanks to the SECURE Act, both traditional and Roth IRA owners now have the chance to contribute to their IRAs as long as they have taxable compensation (and in the case of Roth IRAs, MAGI below a certain level; see below).[1,4]

If you are making a 2019 IRA contribution in early 2020, you must tell the investment company hosting the IRA account which year the contribution is for. If you fail to indicate the tax year that the contribution applies to, the custodian firm may make a default assumption that the contribution is for the current year (and note exactly that to the IRS).

So, write "2020 IRA contribution" or "2019 IRA contribution," as applicable, in the memo area of your check, plainly and simply. Be sure to write your account number on the check. If you make your contribution electronically, double-check that these details are communicated.

How much can you put into an IRA this year? You can contribute up to $6,000 to a Roth or traditional IRA for the 2020 tax year; $7,000,if you will be 50 or older this year. (The same applies for the 2019 tax year). Should you make an IRA contribution exceeding these limits, you have until the following April 15 to correct the contribution with the help of an IRS form. If you don't, the amount of the excess contribution will be taxed at 6% each year the correction is avoided.[3,4]

The maximum contribution to a Roth IRA may be reduced because of Modified Adjusted Gross Income (MAGI) phaseouts, which kick in as follows.

**2019 Tax Year[7]**

- Single/head of household: $122,000 - $137,000
- Married filing jointly: $193,000 - $203,000

**2020 Tax Year[8]**

- Single/head of household: $124,000 - $139,000
- Married filing jointly: $196,000 - $206,000

The IRS has other rules for other income brackets. If your MAGI falls within the applicable phase-out range, you may be eligible to make a partial contribution.[7,8]

A last reminder for those who turned 70½ in 2019: you need to take your first traditional IRA RMD by April 1, 2020 at the latest. The investment company that serves as custodian (host) of your IRA should have alerted you to this deadline; in fact, they have probably calculated the RMD amount for you. Your subsequent RMD deadlines will all fall on December 31.[2]

Citations

1 - marketwatch.com/story/with-president-trumps-signature-the-secure-act-is-passed-here-are-the-most-important-things-to-know-2019-12-21 [1/8/20]
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4 - irs.gov/retirement-plans/traditional-and-roth-iras [1/8/20]
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