Eichenbaum
Bateman • Larkin
Certified Public Accountants, LLC

Retirement Plan changes under the SECURE Act

August 13, 2020

The SECURE Act is intended to encourage individuals to save for retirement. Below are the highlights from the Act.

Raising the age for when Required Minimum Distributions (RMDs) begin. RMDs will start at age 72, *delayed* from age 70 ½, for those born after June 30, 1949.
*All RMDs are waived for calendar year 2020 per the CARES Act as previously discussed.

Date of Birth *Before* 7/1/1949		Date of Birth *After* 6/30/1949
Start RMDs no later than April 1 following the calendar year in which the participant turns 70½		Start RMDs no later than April 1 following the calendar year in which the participant turns **72**

For taxpayers currently receiving RMDs because they are over age 70 ½, they must continue taking RMDs. Only those who turn 70 ½ in 2020 or later may wait until age 72 to begin taking required distributions. This provision allows you to keep money in retirement accounts longer and put off paying taxes on the withdrawals if the funds aren't needed and it makes sense from a tax planning standpoint.

RMDs are required each year out of the following types of plans:

Traditional IRAs
SEP IRAs
SIMPLE IRAs
401(k) plans
402(b) plans
Profit Sharing plans
457(b) plans

Elimination of the Age Limit to Make Traditional IRA Contributions

Beginning in 2020, taxpayers can continue to contribute to their traditional IRA in the year they turn 70½ and beyond, provided they have **earned** income. This could be beneficial for those who continue to work past age 70, potentially enhancing their long-term retirement security.

Inherited IRAs and the Elimination of the "Stretch"

To help pay for the above changes, Congress ended "stretch" IRAs. This provision results in some beneficiaries' paying more in taxes over shorter distribution periods. Effective for deaths occurring after December 31, 2019, funds from inherited IRAs, and other defined contribution plans, must now be fully withdrawn by beneficiaries (see exceptions below) within 10 years of the account owner's death. The old rules that allow beneficiaries to "stretch" withdrawals over their life expectancy still apply for deaths that occurred prior to 2020.

The new 10-year rule **does not** apply to certain kinds of beneficiaries:

- Surviving spouses
- Minor children (until they turn 18)
- Chronically ill
- Disabled
- Designated beneficiary is not more than 10 years younger than the account owner

There are no minimum distribution requirements, the account must generally be withdrawn by the end of the 10th year.

This provision does not apply to taxpayers currently receiving distributions from an inherited IRA or other retirement plan. They will continue taking distributions over their life expectancy. These rules **will** apply to any successor beneficiary, though.

Sometimes trusts are used as designated beneficiaries of IRAs and 401(k)s with "pass-through" features to make use of the old "stretch" provisions over the beneficiaries' lifetime. These trusts should be reviewed and possibly amended.

It is now very important to review beneficiary designations for all retirement accounts to make sure they align with the new rules.

EMPLOYER QUALIFIED RETIREMENT PLANS

Expanded Plan Eligibility for Part-Time Workers

For plan years beginning after December 31, 2020, part-time workers who have worked more than 500 hours a year for three consecutive years must be allowed to make elective deferrals to their employer's 401(k) plan.

- To participate the employee must be age 21.
- The 12-month periods beginning before January 1, 2021 do not have to be taken into account for this provision.
- Employees who are eligible for participation in the plan as a result of having met the 3-year/500 hours requirement do NOT have to be given an employer matching or nonelective contribution.

Penalty-free withdrawals from retirement plans for birth of child or adoption

The 10% early withdrawal penalty does not apply to distributions from qualified plans for payment of birth or adoption expenses, up to $5,000 per child. The limit is for each individual, so it would be possible for each spouse to request a $5,000 distribution from his/her respective plan or IRA for each birth or adoption.

- Distributions must be made during the 1-year period beginning on the date the child is born or the date the adoption is finalized.
- The adopted child must be under age 18, or incapable of self-support due to physical or mental limitations, and does NOT include legally adopting a step-child.

The distribution may be repaid to an eligible retirement plan or IRA to which the individual is eligible to contribute a rollover contribution. Please do not hesitate to contact our office to discuss the legislation as it applies to your situation.