

WHAT THE SECURE ACT MEANS FOR YOUR RETIREMENT

The SECURE Act, or the Setting Every Community Up for Retirement Enhancement Act, was a recent bipartisan bill that was written into law December 20, 2019. The goal of this act was to make saving for retirement easier and more accessible for Americans.

No matter where you stand on the changes, it's vital to understand how they affect your retirement. Check out the changes below and talk to a financial professional about making sure the changes are considered in your retirement strategy.



1. Increased Required Minimum Distributions (RMD) Age

Since 2000, the number of people age 70-74 in the workforce has increased by 49%.¹ One in three people between the ages of 65 and 69 is currently working.² Put simply, many people are retiring later. Because of this, the act increased the RMD age from 70 ½ to 72.

This went into effect January 1, 2020, so for those turning 70 ½ in 2020, that age has increased to 72. If you planned to take your first distributions from qualified accounts [401(k)s, 403(b)s, IRAs, etc] this year, it's important to talk to a financial professional about this change.

2. Removed the Maximum Age Limit for Traditional IRA Contributions

Since there are so many who are working into conventional "retirement years," the maximum age limit for traditional IRA contributions was removed. This means that as long as you are working, you can continue to make contributions to your traditional IRA so that it more closely aligns with your 401(k) or Roth IRA contributions.

3. Increased Access to Annuities Within 401(K) Plans

Because annuities can offer guaranteed income over a retiree's lifetime, the SECURE Act allows employers to offer more lifetime income options. However, because these will be chosen by the retiree's employer rather than the employee, it's important to talk to a financial professional about this first before purchasing an annuity and choose a reputable insurance company as these guarantees are backed by the claims-paying ability of the issuing insurance company.

4. Eradication of the “Stretch” or Inherited IRA Provision

Under previous law, the beneficiaries of an inherited IRA could stretch their distributions and tax payments out over their life or continue to pass that money on tax-deferred to the next generation. Now, that provision has been eliminated and is now replaced with a new law requiring these beneficiaries to withdraw all assets from the inherited IRA or 401(k) plan within 10 years following the death of the account holder.

There are exceptions to this rule that includes assets left to a surviving spouse, a minor child, a disabled or chronically ill beneficiary, and for beneficiaries who are less than 10 years younger than the original owner. However, these changes can drastically change how you may choose to leave your money to your loved ones.

Additional Changes from the SECURE Act

- Incentives given to employers who auto-enroll employees in employer-sponsored retirement plans
- Allows long-term, part-time workers to join company’s employer-sponsored retirement plan
- Allows small business owners to adopt a multiple employer plan (MEP) by expanding this to include unrelated employers in different industries to participate
- Eliminates “bad apple rule” that gives adverse tax consequences to all participating in MEP if one employer fails to satisfy the tax qualification rules
- Individuals can withdraw \$5,000 per parent penalty-free from retirement plan in the case of the birth or adoption of a child
- College 529 savings plans can now be used to pay for certain apprenticeship programs and pay down student loan debt up to \$10,000

¹² Source: <https://www.advisorperspectives.com/dshort/updates/2019/12/10/demographic-trends-for-the-50-and-older-work-force> Accessed 1.16.20
SECURE Act Bill: <https://www.congress.gov/bill/116th-congress/house-bill/1994> <https://www.fidelity.com/learning-center/personal-finance/retirement/understanding-the-secure-act-and-retirement>,
<https://www.marketwatch.com/story/with-president-trumps-signature-the-secure-act-is-passed-here-are-the-most-important-things-to-know-2019-12-21>

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