Eads & Heald Wealth Management

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The "SECURE Act" A Massive Overhaul to Retirement Plans

What You Need to Know About the Secure Act

The largest overhaul to retirement plans since 2006 is complicated

The Setting Every Community Up for Retirement Enhancement Act of 2019 – the SECURE Act – passed the House of Representatives earlier this year and was approved by the Senate and signed by President Trump on the days leading up to Christmas.

Incorporated into a broader 2020 fiscal year appropriations bill, the SECURE Act is aimed at helping Americans more easily participate in tax-advantaged retirement accounts as well as helping ensure that older retirees do not outlive their assets.

But like any changes to the rules on retirement, investors should study the details and potential implications before blindly adopting.

The Retirement Problem

The challenges faced by our retirement system are well documented, from worries about Social Security's reliability to the fact that most of us just don't save enough for retirement.

Sadly, according to the U.S. Bureau of Labor Statistics, just more than half of American adults (55%) even participate in a workplace retirement plan, like a 401(k). And the ones who do participate are usually significantly underfunded.

To underscore the seriousness of how underfunded our 401(k)s are, financial-services firm Vanguard announced earlier this year that its research showed that those 65 years and older had median 401(k) balances of less than $60,000.

The SECURE Act was designed to address these concerns by encouraging more employers to offer retirement plans by lowering the costs in addition to reducing some of the risks.

Key Provisions of the SECURE Act

While the SECURE Act contains 29 provisions aimed at helping us better save for retirement, here are a few of the highlights:

- It offers tax incentives to small businesses to set up automatic enrollment in retirement plans
- It allows employers to join with other companies and offer joint-retirement plans, which should help keep costs down
- It allows many part-time workers to participate in employer-sponsored retirement plans
- It creates a new early withdrawal penalty tax exemption of up to $5,000 from an IRA to use for childcare costs
- It pushes back the Required Minimum Distribution Age from 70 ½ to 72
- It allows for the inclusion of more lifetime-income options, including annuities

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Not All the Provisions are Awesome

While many are suggesting that the SECURE Act is the biggest overhaul to retirement planning since the Pension Act of 2006, there are a few provisions that are giving financial advisors pause. The two big ones are about annuities and whether certain provisions of the Act end up being a tax increase.

Annuities. The SECURE Act creates new rules that will expand the lifetime-income options – including annuities – within retirement plans. But investors would be wise to think more than twice before buying an annuity within their retirement plan.

For one thing, the costs of annuities are generally high. But maybe more worrisome than the high costs is that the trustees of your retirement plan will not have the same fiduciary duty when they select annuity providers. While they will still have fiduciary responsibility for selecting the mutual funds in the plan, the SECURE Act only requires the trustees to collect the insurance company information, not perform any real due diligence. And that could present some challenges down the road for employees.

Tax Increase? Many financial advisors are warning that certain provisions of the SECURE Act will result in a tax increase for some. And the truth is, that will happen. It will happen because one of the main parts of the SECURE Act changes the “stretch” tax provisions that allows inherited IRAs to be stretched out over the lives of multiple beneficiaries.

So, going forward, the tax increase won’t come from the account holders directly, but will impact those who inherit retirement accounts, because the tax bill will be paid by those future heirs when they withdraw money out of inherited retirement accounts over a now-condensed 10-year period.

Pay Attention to the RMD Rule Too

Retirees close to the Required-Minimum-Distribution Age need to be careful too. If you turned 70½ in 2019 you will still have to take an RMD by April 1, 2020, and another RMD by the end of 2020. And for those who turned 70½ in 2019, failing to take your RMD will result in a big penalty – possibly up to a 50% tax on the amount not distributed as required.

If on the other hand, you turn age 70½ in 2020 or later, you don’t have to start taking RMDs until age 72.

Start Planning Now

The new SECURE Act does change a lot of the rules surrounding retirement plans and while many of them are simple, others are very complex.

Talk to your financial advisor to make sure you understand the new rules and potential implications.

QUESTIONS?

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