The SECURE Act and Retirement Planning

The Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed in December 2019 and became law as of January 1, 2020. The new law changes the retirement savings rules and taxes for workers and retirees.

Highlights

- The required minimum distribution age increased to 72, up from 70½.
- The age limit for IRA contributions has been removed.
- Inherited retirement account distributions must now be taken within 10 years.
- New parents can take penalty-free withdrawals.
- Long-term part-time employees will not be eligible for 401(k) plans.
- Student loans can be repaid with 529 Plan funds.

Older Required Minimum Distribution Age

Under former legislation, required withdrawals from a traditional IRA began by April 1 of the year after turning 70½. These required minimum distributions (RMDs) have now been pushed until age 72 for anyone who turns 70 ½ in 2020 or later.

IRA Contribution Age Limit Dropped

The age limit for workers making IRA contributions has now been removed with the SECURE Act. Previously IRA contributions had to stop once the account owner turned 70½. Now, however, they can contribute to a retirement account for as long as they are working.

Beneficiary IRA Account Stretch Limited

Before the SECURE Act, those who inherited IRAs could stretch out the withdrawals and required tax payments on each distribution over their life expectancy. Under the new law, for retirement account owners who pass away after Jan. 1, 2020, beneficiaries may be required to withdraw all assets within 10 years. Exceptions to this include surviving spouses, minor children, disabled and chronically ill beneficiaries and beneficiaries who are up to 10 years younger than the IRA owner.

Penalty-Free Withdrawals for New Parents

Prior to the new law, withdrawals from retirement accounts before age 59½ the amount would usually be subject to income tax and a 10% penalty. The IRS allows penalty-free early distributions from some types of retirement accounts for specific circumstances, such as expensive medical emergencies or to purchase health insurance after a job loss. The SECURE Act adds another exception to the list: each retirement account owner are now allowed a $5,000 withdrawal from an IRA or 401(k) after the birth or adoption of a child. The withdrawal is considered penalty-free, but still taxed if not rolled over within 60 days.

401(k)s for Part-Time Employees

In the past, part-time employees were required to work at least 1,000 hours during a 12-month period to be able to contribute to a 401(k) plan. Under the new legislation, employees who work at least 500 hours in a 12-month period for three consecutive years and are 21 or older can contribute to a 401(k) plan.

529 Plan Funds Repay Student Loan Debt

Sometimes families have money left in 529 Plans after their students graduate. With changes in the SECURE Act, 529s can be used to pay up to $10,000 in student debt over the student's lifetime as a qualified expense.