

SIGNIFICANT CHANGES FOR RETIREMENT ACCOUNTS

On December 20, 2019, a new Act—called the SECURE Act—was signed into law that changes the rules regarding retirement accounts. Some changes affecting individuals include:

- With a few notable exceptions, eliminating the lifetime stretch out for beneficiaries inheriting retirement accounts and requiring full distribution (and, thus, taxation) within 10 years
- Removing the maximum age limit on retirement contributions, which formerly was capped at age 70 1/2
- Raising the required minimum distribution age (RMD) from 70 ½ to age 72
- Allowing penalty-free withdrawals up to \$5,000 for the birth or adoption of a child
- Allowing penalty-free withdrawals up to \$10,000 from 529 education-savings plans for repayment of certain student loans

Most pertinent to an individual's estate planning is the death of the stretch IRA. The Act, with a few exceptions, requires that the participant's beneficiaries receive the entire retirement account within 10 years of the date of the participant's death. This impacts the ability for beneficiaries to defer paying income tax on inherited retirement plans in all but a few instances. For example, where it was possible for a beneficiary to take distributions over an extended period of time to minimize the impact on their income tax, now that deferral is significantly limited.

There are a few beneficiaries who will still be able to stretch out their distributions, including the participant's spouse, minor children (with some caveats), disabled or chronically ill beneficiaries, and those beneficiaries who are less than 10 years younger than the participant. The rules regarding these exceptions are complex and they are still evolving. While the Act eliminates some planning options, there may be other existing planning opportunities that now become more desirable.

The Three60 team encourages those with retirement plans to meet with their advisors to assess the impact of these changes on their overall financial and estate plan. A review can help determine if updates are necessary, and what opportunities may be available to minimize the impact of the Act.