New Legislation Helps Make for a More SECURE Retirement

The SECURE Act was signed into law in late December, bringing about the most significant retirement reforms since 2006. Here's a summary of how it will impact both individuals and businesses.

The new legislation makes tax-advantaged retirement savings plans accessible to more people, easier to administer, and more flexible to manage.

Many Americans are unprepared for retirement. A recent survey found that 40% of respondents had accumulated less than $25,000 in retirement savings, and that 19% had less than $1,000 saved. The statistics are even grimmer for those without a retirement plan, with 81% showing balances under $25,000 and over half (56%) reporting less than $1,000 in savings.[1]

Clearly, more people need to be saving a lot more for retirement. Which is precisely what legislation signed into law in late December aims to address. The SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) contains a number of different provisions designed to make plans more accessible, easier to start and administer, and more flexible in how plan assets can be used.

Below is a summary of the legislation's changes for individuals and businesses.

Changes for Individuals

The following represent the Act's main provisions affecting individuals and plan participants.

Improved portability of lifetime income. For participants whose plan gives them a lifetime income investment option -- typically an annuity -- the legislation gives them the ability to either keep the annuity or roll it into an individual retirement account (IRA) or other qualified plan in the event that the annuity option is removed from the plan's investment lineup. The annuity would not have to be liquidated and the guarantees would be preserved, allowing greater portability.

A related provision requires that participant benefit statements include a lifetime income disclosure at least once a year. This disclosure will show the monthly payments participants would receive if their total account balance were used to provide lifetime income streams.

Plan access for part-time employees. The Act permits most long-term, part-time workers to participate in their employer's retirement plan if they have worked at least 500 hours per year for three consecutive years. Additionally, employers are not required to make employer contributions for these participants.

Longer time to contribute. Although Roth IRAs have no contribution time limit, contributions to traditional IRAs have not been permitted after you reach age 70½. The legislation repeals this age limit so that people working past age 70½ can now contribute to both types of IRA if they wish.

No more "stretch" IRAs for non-spouse beneficiaries. The legislation eliminates current rules that allow non-spousal IRA beneficiaries to "stretch" required minimum distributions (RMDs) from an inherited account over their own lifetimes. Instead, all funds from an inherited IRA generally have to be distributed to non-spouse beneficiaries within 10 years of the IRA owner's death. There are some exceptions to the general rule, though. Distributions over the life or life expectancy of a non-spouse beneficiary are allowed if the beneficiary is a minor, disabled, chronically ill, or not more than 10 years younger than the deceased IRA owner. A minor child must empty the account within 10 years of reaching the age of majority.

Later RMDs. The Act raises the age at which plan participants and IRA owners are generally required to start taking RMDs from 70½ to 72 years old, allowing them to enjoy tax-deferred compounding even longer. Note that if you turned 70½ in 2019, the old rule applies. Your first RMD will be for 2019 (due by 4/1/2020) and each subsequent RMD must be taken by year-end.

Penalty-free withdrawals for birth or adoption of child. This change allows plan participants to withdraw up to $5,000, penalty free, from their plan accounts within the one-year period following the birth or adoption of a child. Withdrawn amounts can later be recontributed to the plan tax free, subject to certain requirements.

Changes for Businesses

The Act also contains a number of provisions to make it easier for businesses to create and administer a retirement plan.

Multiple employer plans (MEPs). The legislation allows employers to combine forces with other unrelated employers to form a MEP. This provision is aimed specifically at small businesses that otherwise could not offer a 401(k) to their employees due to their high administrative costs. Each employer in a plan with a "pooled plan provider" -- an outside fiduciary responsible for administering the plan -- retains responsibility to choose and monitor the provider and investment management of those plan assets attributable to its own employees.

Tax credits. The legislation also increases the credit for plan start-up costs to make them more affordable for small employers, while a related change creates a new tax credit for starting a 401(k) or SIMPLE IRA that includes an automatic enrollment feature or for converting an existing plan to an automatic enrollment design.

No more credit card loans. In the interest of better preserving participants' retirement savings, qualified plans are no longer able to offer participant loans through a credit card or similar arrangement.

Higher cap on auto deferral increases for automatic enrollment safe harbor plans.

© 2020 DST Systems, Inc. All rights reserved. Reproduction in whole or in part prohibited, except by permission. All rights reserved.

The Act raises the cap on deferrals from 10% to 15% of the participant's paycheck, allowing participants to save more for retirement by having a percentage of their paycheck automatically deferred into their retirement plan account unless they opt out.

Lower plan administrative burden. The legislation makes a number of other changes intended to reduce the amount of paperwork and costs associated with creating and maintaining a retirement plan. These include simplification of the 401(k) safe harbor plan rules and a change in timing requirements to provide employers with a longer period to establish a retirement plan. However, penalties for not filing a required plan return will be increased to encourage plan sponsors to file their plan information in a timely and accurate manner, as well as to improve tax administration.

Many provisions of the SECURE Act took effect on January 1, 2020. Contact your financial advisor if you have any questions about how it might impact your specific retirement savings strategy.

[1]Source: EBRI/Greenwald Retirement Confidence Survey, 2019.

© 2020 DST Systems, Inc. All rights reserved. Reproduction in whole or in part prohibited, except by permission. All rights reserved.