RETIREMENT SAVINGS LAW CHANGES

ARE HERE IN 2020

The Setting Every Community Up for Retirement Enhancement Act (SECURE Act) comprises 29 provisions that enact the biggest changes to the U.S. retirement system since 2006.
Here are six main ones to know:

1

CHANGE TO RMD AGE

The law raises the age at which individuals must begin taking required minimum distributions (RMDs) from their retirement accounts from age 70½ to age 72. Note that this only applies to individuals who turn 70½ after December 31, 2019. For example, someone who turned 70½ in 2019 still has to begin taking RMDs in 2019 and must continue to take them in 2020 and beyond.

2

CONTRIBUTIONS TO TRADITIONAL IRAS AFTER AGE 70½

Individuals are no longer prohibited to contribute to an individual retirement account (IRA) after age 70½. An individual may continue contributing to an IRA at an any age, as long as he or she has earned income. This provision applies to all contributions and distributions made for tax years after December 31, 2019.

3

NEW RULES FOR INHERITED RETIREMENT ACCOUNTS

Under current law, the funds of inherited retirement accounts (often referred to as "Stretch IRAs") can be distributed over a beneficiary's lifetime. This provision has potentially significant estate planning implications; however, there are exceptions for spouses, minor children, disabled individuals, and people less than 10 years younger than the decedent.

4

PENALTY-FREE WITHDRAWALS FOR BIRTH/ADOPTION EXPENSES

New parents can withdraw up to $5,000 from an IRA or an employer-sponsored retirement plan to pay for birth and/or adoption expenses through the first year after the birth or adoption. Taxes still need to be paid on pre-tax contributions, but no penalties apply to the withdrawal. This change takes effect for all distributions made after December 31, 2019.

5

CHANGE TO 529 PLANS

Assets in these college-savings plans can now be used to pay down the principal and interest of a qualified education loan. Note that there is a $10,000 lifetime limit for loan repayment with 529 funds per beneficiary. This provision applies to distributions made after December 31, 2018.

6

PART-TIME WORKERS CAN PARTICIPATE IN A 401(K) PLAN

Employers are required to maintain a 401(k) plan for long-term, part-time employees who have either completed one year of service that involves at least 1,000 hours worked or three consecutive years of service that involve at least 500 hours worked per year. This provision takes effect for plan years beginning after December 31, 2020.

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