TRUSTS & ESTATES
SECURE ACT UPDATE

How SECURE is your estate plan?

SECURE ACT MAY SIGNIFICANTLY IMPACT YOUR BENEFICIARIES

Effective January 1, 2020, the Setting Every Community Up for Retirement Enhancement Act (known as the "SECURE Act") will impact many individuals with retirement plan assets. Now is the time to review your estate plan and consider how these changes will impact your retirement savings and estate plan.

The top three changes are:

Elimination of the 'Stretch' provisions for most non-spouse beneficiaries of defined contribution plans and IRA accounts.

This change is probably the most controversial and may have significant income tax consequences for your beneficiaries.

Under the new law, for most non-spouse beneficiaries of an IRA or defined contribution plan, the entire account balance must be withdrawn and income taxes paid within a 10-year period following the death of the participant. This is referred to as the 10-year rule. Unlike the old stretch provisions that permitted use of the beneficiary's life expectancy to determine the required minimum distribution (RMD) each year, the 10-year rule does not require RMDs. Exceptions to the 10-year rule include beneficiaries who are: (1) the surviving spouse of the plan participant; (2) a minor child of the plan participant; (3) a chronically ill individual; and (4) any individual who is not more than 10 years younger than the plan participant.

Increase in the required beginning minimum distribution (RMD) age for retirement accounts from 70½ to 72.

Under the new law, individuals who turn 70½ in 2020 or after will not be required to take RMDs until they are 72. However, those who reached age 70½ in 2019 will need to withdraw their RMDs in 2020. In addition, although the beginning RMD age has increased to 72, the account holder may still make qualified charitable distributions (QCDs) from an IRA beginning at 70½.

Repeal of the maximum age for traditional IRA contributions.

Before 2020, traditional IRA contributions were prohibited once an individual reached age 70½. Under the new law, as long as you have earned income, you may continue to contribute to your traditional IRA, regardless of your age.

Other changes to note:

The SECURE act also has provisions

- providing larger tax credits for small business owners who establish a retirement plan,
- encouraging annuity involvement in retirement plans, and
- providing greater access to employer retirement plans for long-term part-time employees and home healthcare workers.

While most of the SECURE Act relates to retirement, there are plenty of changes that do not.

Expansion of 529 Plans. Under the new law, higher education expenses now include fees, books, supplies, and equipment required for participation in a registered apprenticeship program. Also, up to $10,000 may be distributed tax-free from a 529 plan for payments toward student loans of the designated beneficiary.

Kiddie Tax changes. The SECURE Act reverts the Kiddie Tax (tax of a child's unearned income) back to the rules that were in effect prior to 2018, with the kiddie tax calculated at the income tax rates of the child's parents, rather than the trust income tax rates. This change is retroactive, applying the new law to tax years 2018 and 2019.

We're here to help.

If you have significant retirement plan assets, meet with your estate planning attorney to determine if the SECURE Act affects your planning to review your estate planning documents and beneficiary designations. We will work to ensure that your estate plan properly accounts for changes in the law and provides peace of mind for you and your family.

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