SECURE ACT

The Setting Every Community Up for Retirement Enhancement (SECURE) Act was passed on December 20, 2019. The Act makes major changes to the tax treatment of qualified retirement plans and Individual Retirement Accounts (IRAs) some of which will have direct impact on income tax, retirement and estate planning for many KLS clients.

Key Highlights of the SECURE Act:

- Raises the initial Required Minimum Distribution age from 70 ½ to 72 for retirees and surviving spouses who turn 70 ½ after December 31, 2019. Despite increasing the initial required minimum distribution age, Qualified Charitable Distributions may still be taken beginning at age 70 ½.

- Eliminates the maximum age for contributing to a traditional IRA for working individuals.
    - Under the SECURE Act, stipends and fellowship aid paid to graduate or post-doctoral students are treated as compensation for the purpose of making IRA contributions.

- Reduces the distribution period to 10 years for all but a limited class of beneficiaries of Inherited IRAs and qualified plans:
    - The SECURE Act allows a limited category of beneficiaries, the so-called "eligible designated beneficiaries," to continue to receive their inherited distributions over their own life expectancy. The class of eligible designated beneficiaries is limited to surviving spouses, disabled individuals, chronically ill individuals, individuals who are not more than 10 years younger than the account owner, and minor children (but not grandchildren) of the account owner.
    - In the case of a minor child who inherits an IRA, the 10-year distribution period will still apply, but only after the child reaches the age of majority. However, the Act allows the postponement of the age of majority while the beneficiary qualifies as a student, including years in college.
    - Distributions don't have to be taken ratably over the 10-year period, but all distributions must be taken by the 10th year, and, therefore, timing of distributions should be properly planned depending on the beneficiary's individual tax situation.
    - Conduit trusts are now subject to the 10-year distribution period. Prior to the SECURE Act, a conduit trust could be designated as a beneficiary of a retirement plan, giving the trust beneficiaries the benefit of a long period of deferral for taxable withdrawals from the plan, while also limiting the amounts distributed from the trust to its beneficiaries.

- Allows for penalty-free withdrawals of up to $5,000 from retirement plans, per individual for the birth of a child. Therefore, for married couples, each spouse can withdraw up to $5,000, totaling $10,000 of penalty-free withdrawals. However, tax will still have to be paid on the amount of the withdrawal.

- Allows for penalty-free withdrawals of up to $10,000 from 529 plans to help pay off student debt.

Considerations for IRA owners:

- Roth Conversions: The SECURE Act did not make any significant changes pertaining to Roth IRAs, and therefore, depending on your and your beneficiaries' income tax situation, Roth conversions may be a more attractive option for you than ever before, as Roth IRA assets are allowed to grow tax-free over both your lifetime and your spouse's lifetime. On the surviving spouse's death, the assets can grow tax-free for up to an additional 10 years in beneficiary's account, at which point, although the distribution is mandatory, it remains a tax-free distribution.

- Qualified Charitable Distributions: For charitably-inclined individuals, consider taking advantage of the Qualified Charitable Distribution rules by donating up to $100,000 of your annual Required Minimum Distribution to charities, and save non-IRA assets for your beneficiaries, this is especially important to those who are in a Federally taxable estate position.

- Charitably-inclined individuals may also consider naming a charity as a contingent beneficiary of an IRA account. Your spouse may be named as the primary beneficiary of your IRA assets so that distributions can be stretched out over both your and your spouse's lifetimes, and the named charity would receive the remainder of the IRA assets.

- Conduit trusts that were previously designated as beneficiaries of your IRAs should be reviewed to ensure that they still conform to your dispositive intent. Contact your KLS advisor to discuss in detail.

The SECURE Act has significant income tax, retirement and estate planning implications, please discuss the impact of the law on your individual financial situation with your KLS advisor.