The News You Need to Know

Left to right: Andrew Woolley, Andrew Barninger, Christopher Miller, Steven Bell and Alan Loss.

As with all proposed legislation, we'll have to wait and see what, if anything, becomes law. But it certainly would be remarkable if "stretch" IRAs and required minimum distributions wind up being changed so significantly.

What the SECURE Act Could Mean for Retirement Plans

If passed, it would change some long-established retirement account rules.

If you follow national news, you may have heard of the Setting Every Community Up for Retirement Enhancement (SECURE) Act. Although the SECURE Act has yet to clear the Senate, it saw broad, bipartisan support in the House of Representatives.

This legislation could make Individual Retirement Accounts (IRAs) a more attractive component of retirement strategies and create a path for more annuities to be offered in retirement plans – which could mean a lifetime income stream for retirees. However, it would also change the withdrawal rules on inherited "stretch IRAs," which may impact retirement and estate strategies, nationwide.[1]

Let's dive in and take a closer look at the SECURE Act.

The SECURE Act's potential consequences. Currently, traditional IRA owners must take annual withdrawals from their IRAs after age 70½. Once reaching that age, they can no longer contribute to these accounts. These mandatory age-linked withdrawals can make saving especially difficult for an older worker. However, if the SECURE Act passes the Senate and is signed into law, that cutoff will vanish, allowing people of any age to keep making contributions to traditional IRAs, provided they continue to earn income.[1]

(A traditional IRA differs from a Roth IRA, which allows contributions at any age as long as your income is below a certain level: at present, less than $122,000 for single-filer households and less than $193,000 for married joint filers.)[2]

If the SECURE Act becomes law, you won't have to take Required Minimum Distributions (RMDs) from a traditional IRA until age 72. You could actually take an RMD from your traditional IRA and contribute to it in the same year after reaching age 70½.[3]

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The SECURE Act would also effectively close the door on "stretch" IRAs. Currently, non-spouse beneficiaries of IRAs and retirement plans may elect to "stretch" the required withdrawals from an inherited IRA or retirement plan – that is, instead of withdrawing the whole account balance at once, they can take gradual withdrawals over a period of time or even their entire lifetime. This strategy may help them manage the taxes linked to the inherited assets. If the SECURE Act becomes law, it would set a 10-year deadline for such asset distributions.[4]

What's next? The SECURE Act has now reached the Senate. This means it could move into committee for debate or it could end up attached to the next budget bill, as a way to circumvent further delays. Regardless, if the SECURE Act becomes law, it could change retirement goals for many, making this a great time to talk to a financial professional.

Citations.

1 - financial-planning.com/articles/house-votes-to-ease-rules-for-rias-correct-trump-tax-law [5/23/19]
2 - irs.gov/retirement-plans/amount-of-roth-ira-contributions-that-you-can-make-for-2019 [6/18/19]
3 - congress.gov/bill/116th-congress/house-bill/1994 [6/17/19]
4 - shrm.org/resourcesandtools/hr-topics/benefits/pages/house-passes-secure-act-to-ease-401k-compliance-and-promote-savings.aspx [5/23/19]