Growth & Gains

A Quarterly Newsletter by TPC 401(K) THE PAYROLL COMPANY

"SECURE Act" – What Retirement Account Savers *Really* Need to Know

by Krista Lebeck | February, 2020

If you've been following retirement news, it's likely you've heard some buzz about the passing of the SECURE Act, or the Setting Every Community Up for Retirement Enhancement Act. This is slated to be the most impactful legislation to pass since the Pension Protection Act of 2006, which, among other things, increased IRA contribution limits, introduced "catch-up" contributions and – my personal favorite – allowed for Roth contributions to both 401(k) and 403(b) plans.

It's been said that the SECURE Act will be just as significant, specifically intending to expand opportunities for individuals to improve their retirement savings. But, as you probably expected, there's a lot to it, and it's still new, having just passed in December 2019. Below we will review some of the important components to clarify how this Act could affect the landscape of American retirement accounts and you as an individual (aka – why you should care about this act).

Here are just a few of the significant changes you'll be seeing as the result of the SECURE Act:

- Increases age for Required Minimum Distributions (RMDs)
- Eliminates age limit for traditional IRA contributions
- Makes retirement plans available for long-standing part-time workers
- Provides for additional options for lifetime income/annuity strategies
- Allows penalty-free distributions for birth of child OR adoption expenses

Let's breakdown how these changes could affect YOU, the retirement saver.

REQUIRED MINIMUM DISTRIBUTIONS WILL NOW BEGIN AT AGE 72.

In the early 1960s, it was established that retirement account holders were required to begin taking distributions out of their accounts at age 70.5 – whether they needed the money or not – thus taking the tax hit. The problem? This RMD age has not been adjusted to reflect life expectancies since then. These days, Americans are living longer. In 1960, the life expectancy of the average American was 69.77 years old. Today, this has risen to 78.93 years old. To reflect this increase and to help strengthen retirement savings, the SECURE Act raises the minimum distribution age. For those individuals turning 70.5 in 2020 or later, the requirement will move from 70.5 to age 72, allowing one's retirement nest egg to build for just a bit longer.

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CONTRIBUTIONS TO A TRADITIONAL IRA CAN NOW HAPPEN AT ANY AGE.

Prior to the SECURE Act, once an individual reached age 70.5 they were no longer allowed to make tax-deductible contributions to a Traditional IRA account. Today, individuals are not only living longer, but working longer as well, and not everyone is in an ideal place to stop saving for retirement at age 70.5. As a result of the SECURE act, effective immediately, individuals will be allowed to make tax-deductible contributions to Traditional IRA accounts (and receive the tax benefits that go along with it) for as long as they choose to do so.

NEW OPPORTUNITIES FOR PART-TIME WORKERS

About 3.5 million American workers hold a part-time job, according to data from the U.S. Bureau of Labor Statistics. Under current 401(k) legislation, employers are permitted to exclude part-time employees who work less than 1,000 hours per year. Since nearly 21% of American employees are part-time, that's a whole lot of individuals (assuming they're not saving on their own) without a retirement savings account. In attempt to remedy this issue, the SECURE Act will require employers to include long-term part-time workers as participants in 401(k) plans for plan years beginning in 2021. Eligible employees must have completed at least 500 hours of service each year for three consecutive years and must be age 21 or older. Employers are still permitted to exclude part time participants from safe harbor contributions, nondiscrimination and top-heavy requirements, but previously, they'd be excluded completely if they hadn't worked 1,000 hours in a 12-month eligibility period. The new rule works out to be about 25 20-hour work weeks per year, which will enable a large pool of workers to become eligible to make contributions to a workplace 401(k).

IN-PLAN ANNUITY OPTIONS.

People are living longer and spending more years in retirement, so naturally the demand for more lifetime income solutions has increased. According to the Plan Sponsor Council of America, annuities are only offered within roughly 10% of 401(k) plans right now. One reason for this could be that until now, plan sponsors have had concerns that the benefits of offering this option might not outweigh the potential risks, such as the potential of being sued for breach of fiduciary duties for annuity provider actions. Many employers are unclear about what their responsibilities would be for ongoing monitoring and oversight of that provider. The SECURE Act provides a "safe harbor" for employers choosing this option. In other words, if the plan sponsor chooses an annuity provider within certain guidelines*, they will be protected from liability if the selected annuity provider were to face certain problems in the future. The SECURE Act also increases the portability of these in-plan annuities. Employees who take another job or retire will now be allowed to transfer their annuity to another 401(k) plan or to an IRA without incurring additional surrender charges and fees, making this feature even more attractive.

On a related note, to help employees gain a better understanding of how their retirement plan savings will translate into retirement income, the SECURE Act will ultimately require that plan sponsors annually disclose on participant statements an estimate of monthly payments participants would receive if they were to purchase an annuity.

"BABY GIFT."

A large part of this legislation is seemingly geared toward older workers and retirees, but there are changes in the works for younger savers as well – specifically those starting families. The SECURE Act will allow participants in a 401(k) or IRA to withdraw up to $5,000 for childbirth or adoption expenses without incurring the normal 10% IRS early withdrawal penalty. This rule applies to each parent separately, meaning a couple could take up to $10,000 penalty-free if each has a separate retirement account. Keep in mind: There are pros and cons to this, as tapping into retirement savings early isn't always the best option. Nonetheless, this new provision may provide peace of mind for those with little to no other options to cover this specific expense.

**Essentially, employers are insulated from risk if the insurer they pick is in good standing with the state insurance department in which the insurer is based.*

WHAT'S NEXT?

The SECURE Act retirement legislation includes a great deal of policy changes, so it could take lawmakers some time to sort through all of the details. The items we've outlined are simply an initial overview of some of the key changes that could affect you, the individual retirement-saver, now or in the future. Keep in mind that a number of these provisions will be subject to interpretations from the Internal Revenue Service or other authorities, and a few of them will not become official until December 2020. As always, you should consult with your financial advisor regarding your personal situation.

We are encouraged by the enhancements made as a result of this act, along with continued efforts on behalf of our legislators to help people save and better-prepare for retirement. On behalf of everyone here at TPC 401(k), we wish you continued saving-success, and we hope you'll contact us if there are ways we can help you on your retirement-planning journey!

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