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A MOVEMENT REQUIRING SKILL AND CARE

10 WAYS THE SECURE ACT IS CHANGING THE FUTURE OF RETIREMENT

The SECURE Act is changing the future of retirement. The law, otherwise known as Setting Every Community Up for Retirement Enhancement, passed on December 20, 2019, when it was signed into law by President Trump. It went into effect January 1 this year.[1]

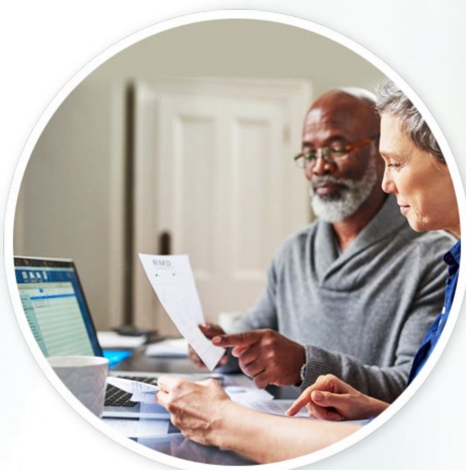
This new legislation aims to strengthen retirement security for Americans.

According to a 2019 retirement survey conducted by GOBankingRates, **45% of the 20,000 surveyed said they had no money set aside for retirement.**

19% said they will retire with less than $10,000 in their retirement savings.[2]

The goal of the SECURE Act is to help people have greater access to retirement savings and avoid running out of money during retirement. But, it also affects how and when you can withdraw retirement savings and transfer money upon death, among other things.

While not all these changes will affect you, there are certain things you should be aware of so you can make necessary changes to your retirement strategy. Keep reading for 10 ways the SECURE Act is changing the future of retirement.



#1: Required Minimum Distribution (RMD) Age Raised

The SECURE Act raises the required minimum withdrawal (RMD) from age 70½ to age 72 for 401(k)s and other retirement accounts. The reasoning behind this change is because people are living and working longer, and often need a bit more time to grow their retirement savings.

If you turn 70½ in 2019, you will have to take the first RMD by April 1, 2020, to avoid a 50% penalty. If you turn 70½ after January 1, 2020, you have two more years (until you turn 72) to take your RMD.

#2: No More Age Contribution Restrictions for Traditional IRAs

Another way the SECURE Act is changing the future of retirement is that Americans with IRAs can now save longer for retirement.

Under the old law, people could not contribute to their traditional IRA after age 70½. The SECURE Act now allows Americans to contribute past this. So, people working into their 70s have the opportunity to contribute longer.

The law did not change for Roth IRA contributions, which have no age-based restrictions on contribution ages as long as there is earned income of at least the amount contributed.

#3: Part-Time Workers May Participate in 401(k)s

Until now, part-time workers who worked under 1,000 hours per year were mostly ineligible by plans from participating in their employers' 401(k) plans.

The SECURE Act changes this starting in 2021. Long-term, part-time workers who have worked at least 500 hours per year for at least three consecutive years or those who have worked one full year with 1,000 hours clocked will be eligible to participate in their employers' 401(k) plans.

There are a few restrictions: The person must be 21 years old by the end of the 3-year period. And, the rule does not apply to collectively bargained employees.

Remember, this new retirement law does not take effect until 2021.

#4: Annuities in 401(k) Plans

The SECURE Act allows employers to now offer annuities and other lifetime income options as investment options in 401(k) plans.

Previously, employers held a fiduciary responsibility to make sure what they offered in their plans were in the best interest of their employees. Under the SECURE Act, the legal risk now falls on the insurance companies to do so for annuities only.

Should an employer add an annuity option to your 401(k) plan and you change jobs, you can roll it over to another 401(k) or an IRA to avoid penalties.

#5: Auto Enroll 401(k) Plan

Another way the SECURE Act is changing the future of retirement is by making sure employees save more.

To boost participation and to encourage more people to start saving for retirement as soon as they are eligible, many companies automatically enroll employees in a 401(k) plan.

An employee's default contribution rate is set by the employer, but the employee can select to contribute a different rate if he or she chooses. Under the old law, the employer could not set the qualified automatic contribution arrangement (QDCA) to exceed 10% for any year. This changes with the SECURE Act, which allows the 10% cap on automatic contributions to increase to 15%--except in the first year of employment.

If you are starting a new job, make sure to ask what the QDCA is for your plan, so you can adjust it if you need to.

The SECURE Act will also now provide small employers a tax credit to offset the costs of starting a 401(k) plan or SIMPLE IRA plan with auto-enrollment.

#6: No More Stretch IRAs

The SECURE Act changes how non-spousal beneficiaries withdraw their money from IRAs, 401(k)s, 403(b)s, and 457 plans.

Under the old law, non-spousal beneficiaries were able to stretch the required minimum distributions (RMDs) from an inherited account over their own lifetime.

Under the new SECURE Act, non-spousal beneficiaries must withdraw the entire balance from an inherited IRA, 401(k), 403(b), and 457 plan account within a 10-year period after the owner's death. There are no required minimum distributions within those 10 years.

This may potentially cause a tax burden for many people, as they are forced to take the full distributions in a limited time frame.

There are some exceptions to the new rule.

Distributions over the life of a non-spouse beneficiary are allowed if the beneficiary is chronically ill, disabled, or no more than 10 years younger than the deceased account owner. Exceptions also apply to minors; however, when they reach adulthood, the 10-year rule kicks in.

If the beneficiary is a spouse, he or she can still make the deceased spouse's IRA, 401(k), 403(b), or 457 plan their own and does not have to take it as an inherited account. Also, RMDs are still delayed until the end of the year the deceased would have reached age 72.

#7: Penalty-Free Withdrawals If You Have a Baby or Adopt

A new provision for penalty-free withdrawal provided by the SECURE Act allows parents who have a baby or adopt a child to take early withdrawal of up to $5,000 from a 401(k) without the 10% penalty.

Each parent can use the $5,000 exemption, meaning a couple can take out $10,000 penalty-free from their 401(k)s. This is not a loan, and parents can opt to repay the withdrawal amount or not.

The above exceptions still require you to pay income tax on the amount withdrawn, just not the 10% penalty.

#8: No More Credit Card Access to 401(k) Loans

Borrowing from your 401(k) isn't always advisable for a variety of reasons we won't go into. While you may borrow as much as 50% of your account balance up to $50,000, most plans require the loan be repaid in five years.

Some 401(k) plans allow you to access plan loans by using debit or credit cards. Under the new SECURE Act, this is no longer allowed to prevent people easy access to their retirement funds to pay for smaller items.

This portion of the law went into effect January 1, 2020.

#9: Care Providers and Graduate Students Can Save More

Under the old law, if you weren't working (earning compensation), you could not contribute to your retirement fund, such as an IRA.

Therefore, graduate and postdoctoral students who were living off stipends or fellowships couldn't treat this income as compensation. As a result, they could not contribute to a retirement savings plan.

The SECURE act changes all this. Now, graduate students, postdoctoral, or research fellows who received a stipend for fellowship are able to treat this money as compensation and contribute to their IRAs.

For those earning "difficulty of care" payments--payments that foster care providers receive to care for disabled people in the caregiver's home--they will now also be able to consider this compensation and contribute to retirement savings.

#10: Greater Access to Multiple Employer Plans for Small Businesses

The SECURE Act provides small businesses greater access to multiple employer plans. Under the new law, employers no longer have to share a common characteristic in order to participate and pool together with other businesses.

With access to numerous plans, small businesses should be able to access more features at better prices--**a win for small companies and their employees**.

How Does the SECURE Act Change *Your* Retirement?

As we stated in the intro, not all of these changes affect you.

However, we encourage you to reach out to a third-party expert who can advise you on how this new law specifically affects you and what changes may need to be made to your retirement strategy.

About 401(k) Maneuver

401(K) Maneuver manages your 401(k) for you by reviewing your account quarterly based on your risk tolerance, current economic and market conditions, and the menu of investment choices made available by your employer plan. Then, we rebalance as necessary.

Whether you want more money for retirement or you don't want to lose what you have, 401(k) Maneuver exists to help you with the goals to...

- **Improve account performance** over time so you have more money for retirement.
- **Manage downside risk** to minimize losses during bad markets, to avoid losses like 2008.
- **Decrease fees** that strike a blow to your account performance, so you may keep more of your hard-earned money.
- **Avoid target date funds** that may not be the best strategy to achieve your goals.

Visit us online today at: https://www.401kmaneuver.com/

Let's Get Social! Follow Us for Retirement and Saving Tips, Market Updates, and More!

Sources:

1. https://www.congress.gov/bill/116th-congress/house-bill/1994
2. https://www.gobankingrates.com/retirement/planning/why-americans-will-retire-broke/