

# Adjusting TO THE SECURE ACT



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**One of the biggest changes to affect retirement planning in some time, the SECURE Act, became effective on Jan. 1, 2020. It is important to understand the potential benefits and drawbacks this recent legislation may have on**

**your financial situation.**

## THERE ARE FOUR PRIMARY ADJUSTMENTS THAT WENT INTO EFFECT:

**Required Minimum Distribution.** The Required Minimum Distribution (RMD) age was raised from 70 ½ to 72 (if your birthday is after July 1, 1949). This means anyone turning 70 ½ during or after 2020 will not have to take distributions until age 72. For those over age 70 ½ and already taking RMDs, distributions will continue.

**Contributions to IRAs.** You are now allowed to contribute to your IRAs even after age 70 ½, as long as you have earned income. In previous years those over 70 ½ were not allowed to contribute to IRAs. This change provides an opportunity for those who are still earning to continue adding funds into their retirement accounts.

**Elimination of the Stretch IRA.** If you pass away, the beneficiary of your IRA could be required to fully distribute the account within 10 years. Exemptions exist if the beneficiary is a surviving spouse, children who are minors, those who are within 10 years of the age of the benefactor, or those who are disabled or have a chronic illness. Previously, beneficiaries could take distributions over their lifetimes, creating a "Stretch IRA." This change will affect anyone who passes away after Jan. 1, 2020.

**Adoption and Childbirth Distributions.** The IRS will now allow those under 59 ½ to take a penalty-free distribution of \$5,000 (per parent) from their IRAs if used for qualified childbirth or adoption costs. This means a couple could take up to \$10,000 combined.

On the surface some of these changes seem to be improvements upon the current system, especially the ability to take funds out penalty-free for adoption or childbirth and being able to contribute to an IRA beyond age 70 ½. However,

when you consider the 2025 cessation of lower tax rates imposed by the Tax Cuts and Jobs Act, changes enacted in the SECURE Act present potentially expensive consequences.

It could be that the government's primary objective behind the SECURE Act is to collect higher tax revenue from retirees and beneficiaries without having to actually raise taxes.

## CONSIDER THESE POINTS:

- By extending the age requirement for RMDs, the government is looking at the prospect of your IRA balances growing even higher. It also delays the distribution of your IRAs into future years. These seem to be positive changes. However, when you take into consideration that most Americans' tax rates will increase following the sunset of current tax cuts, the SECURE Act could enable the government to collect a higher tax rate on larger balances.
- The elimination of the Stretch IRA presents an estate planning and tax problem for beneficiaries. The government's change requiring beneficiaries to take a full distribution of the account balance within 10 years means that beneficiaries could be forced into higher tax brackets.
- While contributions into a pre-tax IRA reduce your taxable income now, many retirees' tax brackets could actually increase in the future.

## With all this in mind, you should consider reviewing the following potential solutions with your financial advisor, estate attorney and/or CPA:

- A Roth IRA conversion analysis to determine whether moving funds to a tax-free account now, while tax rates are lower, might be beneficial to you and your heirs.
- Roth IRA contributions if you are over age 70 ½ rather than IRA contributions permitted under the SECURE Act.
- The incorporation of life insurance into your estate plan in place of IRAs or trusts.

**If you have any questions, call us today at 803.782.0671 or email us at [Relations@CapitalCityFP.com](mailto:Relations@CapitalCityFP.com). We want to help you pursue your financial goals.**



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