Perspectives

JUNE
2019

Securing Retirement Through the SECURE Act

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On May 23rd, with overwhelming bipartisan support, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) passed in the House with a 417–3 vote. The bill is the first major retirement legislation since 2006 and has 29 total changes or new provisions.

The bill will impact most workers from part-time employees to small business owners to more tenured employees. Below we have outlined some of the major changes outlined in the SECURE Act:

- Repeal the maximum contribution age, which is 70½ on traditional Individual Retirement Accounts (IRAs). The SECURE Act would remove this savings limitation by repealing the age limitation for traditional IRA contributions and allow workers to contribute until a later time.
- Increase the required minimum distribution (RMD) age from 70½ to 72. This would allow for funds within retirement accounts to continue to grow tax deferred for an additional 1.5 years. It would also allow the deferral of taxation out an additional 1.5 years if distributions are not taken until 72.
- Removal of "Stretch" Inherited IRAs. Today's code allows for beneficiaries to distribute funds or stretch the payments over their own life expectancy. The new bill would require most beneficiaries to distribute the funds over a 10-year period. This is an important provision as it accelerates the depletion of inherited IRAs, which could also increase taxes for beneficiaries by driving larger than normal distributions.
- Allow long-term part-time employees to become eligible for benefits.
- Encourage small employers to establish automatic enrollment by offering a $500 tax credit.
- Allow 401(k) plans to add annuity options to the plan. Currently, many 401(k) plans steer clear of annuities due to the liability associated with

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selecting annuity providers. The new legislation will reduce the liability and open the path for more annuity options.

- Expand multi-employer plans and make the process easier overall. The bill would allow small employers to pool resources and offer 401(k) plans to their employees.
- Allow penalty free distributions up to $5,000 from a retirement plan without the 10 percent penalty in the event of a qualified birth or adoption. The distribution would need to occur within one year of the adoption becoming final or the child being born.
- Require defined contributions plans to deliver a lifetime income disclosure to participants at least once every 12 months.
- Permit an employer that terminates a 403(b) plan to distribute the account assets in kind to the new custodial account of the participant or beneficiary.
- Treat certain taxable non-tuition fellowship and stipend payments as compensation for IRA purposes, making it easier for individuals receiving such payments to save through an IRA.

While the SECURE Act has captured bipartisan support, it is important to note the bill is not finalized. As it heads to the Senate there is a similar bill within the Senate called the Retirement Enhancement Securities Act (RESA). There are some differences between the two bills and prior to new retirement legislation some of the provisions included in RESA might find their way into the SECURE Act. Either way, the stage has been set for retirement reform to happen in 2019 and most workers should anticipate some impact if the bill passes.

Much of the legislation is aimed to support tax deferred savings through retirement accounts. However, pieces of the legislation — including limiting the ability to stretch inherited IRA distributions — could impact wealth transfer planning, beneficiaries, and taxation. At Marquette, we think holistically about investment management, including portfolio construction and asset placement to maximize after-tax return. Once the legislation is finalized there should be opportunities for individuals to maximize after-tax portfolio returns by contributing additional funds to retirement accounts and deferring RMDs, and in turn, the taxation of the RMDs to a later date.

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