

SECURE Act: At-A-Glance

- SECURE enjoyed broad bipartisan support in both the House and Senate
- SECURE makes many positive changes to employer-sponsored retirement plans to help Americans save for retirement
- One major change to retirement plans is increased flexibility for plan sponsors in offering lifetime-income guarantees to participants via annuities
- Other plan changes are greater ease in forming multi-employer plans (MEPS), tax incentives for small businesses to form new plans, and to offer automatic participation options
- IRA owners were given increased flexibility in making IRA contributions and taking required minimum distributions
- New withdrawal options were created for IRAs (birth or adoption of a child) and for 529 plans (apprenticeships and paying student loans)

What is the SECURE Act?

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 was signed into law by President Trump on December 20, 2019, as part of the larger Further Consolidated Appropriations Act, 2020. SECURE is the largest piece of retirement-focused legislation since the Pension Protection Act of 2006.

How did the SECURE Act impact IRA owners?

SECURE made several changes to IRAs, most of which are considered to be largely positive for IRA owners. These changes include:

Elimination of the age limit on making contributions so long as the individual or their spouse has earned income.

Required minimum distributions (RMDs) must now start no later than April 1 of the year following the year the individual turned 72. This new rule applies only to individuals who did not turn 70½ in 2019.

Qualified Charitable Distributions are still allowed, starting at age 70½. However, these distributions will now be offset by any deductible IRA contributions made in the same year.

A new “qualified birth or adoption withdrawal,” up to \$5,000, may be taken from an IRA or employer plan within one year of birth or adoption. These withdrawals are not subject to the 10% early withdrawal penalty or the mandatory 20% withholding (from plans).

The definition of “qualified higher education expenses” (for the purposes of 529 plan withdrawals) was amended to include: 1) costs associated with apprenticeships; and 2) the repayment of student loans.

How did the SECURE Act impact IRA beneficiaries?

SECURE’s arguably largest impact on IRAs was a major change to the distribution options of inherited (beneficiary) IRAs.

For any IRA owner or plan participant who dies on or after January 1, 2020, “designated beneficiaries” (natural persons) are now required to withdraw their inherited interest within 10 years of the death of the original owner. It is anticipated that most IRA and plan beneficiaries will fall under this new “out-in-10” rule.

However, SECURE also created five categories of “eligible designated beneficiary” (EDB). These beneficiaries may still opt for a lifetime payout schedule (a.k.a., a “stretch” distribution) with some limitations.

- SECURE also institutes a drastic reduction in the payout schedule of an inherited IRA
- Most IRA beneficiaries no longer have the option of a stretch distribution and must empty the IRA within 10 years of the original owner's death
- The Congressional Research Service estimates that this new "out-in-10" rule will lead to an additional \$16 billion in federal tax revenue over the next 10 years
- Stretch distributions may still be available to a small subset of beneficiaries, including surviving spouses and those with disabilities

Eligible designated beneficiaries are:

- 1) Surviving spouse – business as usual
- 2) Minor children of the owner/participant – may stretch only while minors
- 3) Disabled beneficiaries – unable to engage in any substantial gainful activity
- 4) Chronically ill beneficiaries – unable to perform at least two Activities of Daily Living
- 5) Beneficiaries not more than 10 years younger than the owner/participant – for example, sibling beneficiaries

Upon the death of any EDB, the successor beneficiary is limited to the out-in-10 payout. Likewise, for any grandfathered (pre-SECURE) stretch IRA, once the original beneficiary dies, the successor beneficiary must take the remaining balance within 10 years.

For non-natural beneficiaries (estates and trusts), the pre-SECURE rules still apply – the beneficiary IRA must be emptied within five years (out-in-5).

- **Exception #1** – qualified or "see-through" trusts can use out-in-10 instead of out-in-5
- **Exception #2** – a stretch distribution may still be available to a see-through trust if the only beneficiary of the trust is an EDB

IRA owners and plan participants should, with the help of a financial professional, review the beneficiary designations on all their qualified accounts to ensure that their legacy goals can still be achieved under the SECURE Act.

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