Changes to Retirement Plan Rules: Good News, Bad News, and a Silver Lining

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Congress passed the SECURE Act at the end of 2019 to encourage people to save for retirement and to offer more options for the use of education savings accounts. Nearly all changes offer more flexibility, though one modification to the current rules may significantly impact the ability of your estate plan to provide for your children, especially those plans heavily funded with retirement assets.

The good news: you can save longer for retirement and wait longer to take required distributions.

In recognition that many people are working longer, employees who turn 70 ½ after December 31, 2019 may continue to make pretax contribution to traditional IRAs. You also may postpone IRA distributions until you turn 72.

More good news: you can pay down student loans and fund apprenticeship programs with education savings accounts.

Education savings accounts (or "529 accounts") can now be used to repay up to $10,000 in student loans or to pay for apprenticeship programs.

The bad news: you can no longer rely on IRAs to distribute funds to your children over their lifetime.

While most SECURE Act changes offer welcome opportunities, there are a few modifications that limit the flexibility many individuals and families counted on.

Before, you could name an IRA beneficiary and rely on the fact that those payments would typically "stretch out" over the beneficiary's lifetime. This provided reassurance that an inheritance would be available as long as possible. Now, with a few exceptions, most adult beneficiaries must withdraw the inheritance within ten years of the date the owner passed away. While the "stretch" remains available for spouses, disabled individuals, and those less than ten years younger than the owner, only a modified version remains an option for children. An inherited IRA will be distributed under the old rules in regular payments until a child reaches the age of majority, afterwards the new ten-year rule applies.

Also, for those subject to the ten-year rule, there are no longer any required minimum distributions, meaning the funds can be withdrawn in a lump sum, which may have significant tax consequences for a beneficiary if the IRA included pretax dollars. On the plus side, if the funds are not disbursed until the end of the ten-year limit, the opportunity for growth is enhanced beyond what the prior rules allowed.

The silver lining: you can modify your estate plan to maximize stability and security for your heirs.

If your estate assets include retirement savings, an update to your planning documents can help ensure the resources will be available to beneficiaries for as long as possible. In addition to the recommended annual review of beneficiary designations (especially important after a marriage, birth, divorce or death), now may be the time to consider a trust or review current trust documents. Trustees with discretionary authority over retirement assets can maximize distributions to provide the most security and tax advantage to beneficiaries. Amending a trust may be particularly vital if it required the trustee to distribute benefits according to a disbursement schedule that no longer applies.

Contact RCO Law to discuss how you and your children can benefit from the SECURE Act and whether an update to your estate plan makes sense.