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Summary of US Pension Legislation Changes

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While everyone was preoccupied with the holidays and the impeachment of President Trump, Congress quietly passed what is widely considered to be the most sweeping Retirement Bill since 2006. The SECURE Act sets out changes to how long pensions can be contributed to as well as changes to the required distribution rules for both pension owners and those who inherit pensions. The changes outlined become effective from 1 January 2020. Below we summarise some of the biggest key changes:

Required Minimum Distributions (RMDs) will begin at age 72 as opposed to age 70.5

For anyone who has not already reached the age of RMDs prior to 2020, the new legislation changes the age in which RMDs must begin. Before January 2020, individuals were required to begin distributing from their traditional retirement accounts from age 70.5. The new legislation pushes these required distributions back to age 72. Therefore, those individuals who reach age 70.5 on or after 1 January 2020 have the opportunity to delay their RMDs further. Those individuals who have already reached age 70.5 before 1 January 2020 should proceed with their RMD's as previously outlined.

Contributions to a Traditional Individual Retirement Account (IRA) can continue past age 70.5

Prior to this legislation, once RMDs began at age 70.5, individuals were no longer permitted to contribute to a traditional IRA even if they continued to work and have earned income. From January 2020, individuals who continue to have qualifying earned income will be able to make a Traditional IRA contribution each year. The motivation behind this change is to allow baby boomers who may not be able to afford retirement, to continue saving in a tax efficient manner.

Opportunities to 'Stretch' Inherited IRA Required Minimum Distributions have become limited

Up until now, when non-spouse beneficiaries inherited an IRA, a common estate planning strategy allowed beneficiaries to 'stretch' the required distributions over their life expectancy. This made it pretty common for younger family members to be named beneficiaries with ensuing distributions being taken over a number of decades thereby allowing the funds to remain invested longer and sheltered from tax. Under the new legislation, most beneficiaries (spouses still remain an exception) will be required to withdraw all inherited IRA distributions (including those from Roth IRAs) within 10 years.

It is important to note that the new legislation is not retrospective to those beneficiaries who have already inherited an IRA. It will apply to non-spouse beneficiaries who inherit an IRA from 1 January 2020.

Two new exceptions for penalty-free withdrawals from Retirement and 529 accounts

There are a few exceptions that exist for early distributions from retirement accounts and 529 accounts without penalty. Two new exceptions are added to the list:

1. Up to $5,000 can be withdrawn from retirement accounts for the birth or adoption of a child

2. Up to $10,000 can be withdrawn from 529 accounts for the repayment of certain student loans

Opportunities for Part-time employees or Small Businesses to offer 401k's will likely increase

The administrative burden of offering occupational retirement plans to employees of small businesses often kept employers from establishing plans. The legislation creates the opportunity for multi-employer 401k plans to be more easily established.

Additionally, the legislation requires employers who offer 401k plans to extend participation within the plan to part-time workers who work at least 500 hours a year for three consecutive years or 1,000 for one year.

Please don't hesitate to contact us if you have any questions about how these new rules affect you personally.