

Overview of the SECURE Act

Changes and Opportunities



Deidra W. Hubenak, JD, CPA
VP, Advanced Sales
AIG Financial Distributors
(713) 831-5240
Deidra.Hubenak@aig.com

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SECURE Act

Legislative History

Passed the House

- Originally passed by the House in July 2019

Bill sat in the Senate for months

- 2 Senators were hold-outs due to some requested revisions (that ultimately never happened)

Passed in the final hours of 2019

- Last ditch effort, SECURE was included with the 2020 Appropriations Bill



THE SETTING EVERY COMMUNITY UP FOR RETIREMENT ENHANCEMENT ACT OF 2019 (THE SECURE ACT)

TITLE I: Expanding and Preserving Retirement Savings

Section 101. Expand Retirement Savings by Increasing the Auto Enrollment Safe Harbor Cap

The legislation increases the cap from 10 to 15 percent of employee pay that required automatic escalation of employee deferrals go no higher than under an automatic enrollment safe harbor plan.

Section 102. Simplification of Safe Harbor 401(k) Rules

The legislation changes the nonelective contribution 401(k) safe harbor to provide greater flexibility, improve employee protection and facilitate plan adoption. The legislation eliminates the safe harbor notice requirement, but maintains the requirement to allow employees to make or change an election at least once per year. The bill also permits amendments to nonelective status at any time before the 30th day before the close of the plan year. Amendments after that time would be allowed if the amendment provides (1) a nonelective contribution of at least four percent of compensation (rather than at least three percent) for all eligible employees for that plan year, and (2) the plan is amended no later than the last day for distributing excess contributions for the plan year, that is, by the close of following plan year.

Sec. 103. Increase Credit Limitation for Small Employer Pension Plan Start-Up Costs

Increasing the credit for plan start-up costs will make it more affordable for small businesses to set up retirement plans. The legislation increases the credit by changing the calculation of the flat dollar amount limit on the credit to the greater of (1) \$500 or (2) the lesser of (a) \$250 multiplied by the number of nonhighly compensated employees of the eligible employer who are eligible to participate in the plan or (b) \$5,000. The credit applies for up to three years.

Section 104. Small Employer Automatic Enrollment Credit

Automatic enrollment is shown to increase employee participation and higher retirement savings. The legislation creates a new tax credit of up to \$500 per year to employers to defray startup costs for new section 401(k) plans and SIMPLE IRA plans that include automatic enrollment. The credit is in addition to the plan start-up credit allowed under present law and would be available for three years. The credit would also be available to employers that convert an existing plan to an automatic enrollment design.



SECURE Act

Designed to help Americans save for retirement. This is how...



Repealed the Max Age for IRA Contributions

- The maximum age for Traditional IRA Contributions is no longer 70 ½; Contributions can continue indefinitely

RMD Age Increased to 72

- Required Minimum Distributions are now required at age 72 rather than 70 ½ for those who turn 70 ½ on or after January 1, 2020.

“Stretch IRA” Reduced to 10 Years

- If not an eligible designated beneficiary, the Inherited IRA must be depleted within 10 years (incl. ROTH) for heirs of account holders who pass away starting in 2020



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Who may still “stretch” their IRA past 10 years?*

Eligible Designated Beneficiaries (EDB) - Yes

- Surviving Spouse
- Disabled Individual
- Chronically Ill Individual
- Individuals within 10 years of age of the plan owner
- Child of plan owner under the age of majority (AOM)

Non-Eligible Designated Beneficiaries - No

- Everyone else, includes:
 - Children over AOM
 - Trusts

* This slide focuses on the death benefit options available for natural persons and agents of natural persons only.



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How Consumers are Affected

What was a “Stretch IRA”

- Pre-SECURE, Inherited IRAs had required minimum distributions
- “Stretch” = Minimum payments, preserving maximum account balance

Why Stretch?

- Keep income taxes low
- Preserve tax-deferred account growth

What are the new planning concerns?

- 10 years to 100% distribute account
 - Guidance needed to determine the most efficient distribution
- Increased Effective Income Tax Rate if everything distributed in year 10



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Other Benefits for Individuals...



Penalty Free Withdrawals for Childbirth or Adoption

- Early penalty-free withdrawals up to \$5,000 for qualified childbirth or adoption expenses

Student Loan Repayments from 529 Plan

- Permits student loan repayments of up to \$10,000 per year from 529 accounts.
- Also permits payments for registered apprenticeships from 529 accounts

Reversed Taxation of Benefits

- Revised Tax Cut and Jobs Act provisions that imposed taxation on benefits for family members of deceased veterans, students and some Native Americans.



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Changes to help Small Businesses Establish Retirement Plans



New Option for Small Businesses

- Tax Credits for 401(k) plans offered through Multiple Employer Plans (MEPs)
- Safe Harbor plans that are less expensive and easier to administer



Encourage Holding Annuities in 401(k) plans

- Reduces liability for plan sponsor if the insurer cannot meet its financial obligations.
- Plan sponsor is not required to choose the lowest cost option



SECURE Act

Changes to help Small Businesses Establish Retirement Plans



Part-time workers can participate in 401(k) plans

- Age 21 or older and either 1,000 hours of service in the current year or 500 hours of service annually over the past 3 years

Tax Credits for Employers

- Increased tax credit cap for retirement plan start-up costs from \$500 to \$5,000
- New \$500 Tax Credit for 401(K) or SIMPLE IRA Plans with automatic enrollment.

Increases Cap for “Safe Harbor” Plans

- Makes it easier for small businesses to set up 401(k)s by increasing the cap under which they can automatically enroll workers in “safe harbor” retirement plans from 10% to 15% of wages.



Questions?

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