Retirement law changes

Impact on participants age 70½ and older

Since December 2019, two law changes have impacted participants in IRAs and employer retirement plans. The Setting Every Community Up for Retirement Enhancement Act of 2019, better known as the SECURE Act, was signed into law in December 2019. And then on March 27, 2020, the president signed into law the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). While both bills made law changes in many areas, the information below focuses on changes that impact retirement plans for those age 70½ or older.

Required Minimum Distributions

A required minimum distribution (RMD) is the amount of money that must be withdrawn from a traditional, SEP, or SIMPLE individual retirement account (IRA) or an employer retirement plan (401(a), 401(k), 403(b)) by participants of retirement age. Prior to 2020, a participant was required to begin taking RMDs in the year the participant turned age 70½. Participants in a qualified plan who still were employed after age 70½ could delay RMDs until they retired.

There are two changes you need to be aware of.

Waiver of 2020 RMD – CARES Act

- The RMD for 2020 does not have to be taken. This includes individuals who inherited retirement accounts. **If you have established a periodic distribution from your retirement account to meet the annual RMD requirement and you do not want to receive those distributions in 2020, contact your retirement plan to suspend those distributions until 2021.**
- The waiver also applies to those born between July 1, 1948, and June 30, 1949, if you waited until 2020 to receive your 2019 distribution.
- For those who already received RMDs in 2020, you have until July 15, 2020 to rollover RMDs you received on or after Feb. 1, 2020. RMDs from beneficiary accounts are not eligible for rollover. Please see your tax advisor for other restrictions.

Delayed RMD Date – SECURE Act

For those who were born July 1, 1949, or later, the age at which you must begin receiving RMDs has been changed to 72.

- *IRAs (including SEPs and SIMPLE IRAs)*
  - April 1 of the year following the calendar year in which you reach age 70½, if you were born before July 1, 1949.
  - April 1 of the year following the calendar year in which you reach age 72, if you were born after June 30, 1949.

- *401(k), profit-sharing, 403(b), or other defined contribution plan*

Generally, April 1 following the later of the calendar year in which you:

- reach age 72 (age 70½ if born before July 1, 1949), or
- retire (if your plan allows this).

If you own 5% or more of the business sponsoring the plan, you must begin receiving distributions by April 1 of the year after the calendar year in which you reach age 72 (age 70½ if born before July 1, 1949), even if you have not retired.

Stretch IRA – SECURE Act

Prior to 2020, a person who inherited an IRA or qualified plan after the account owner's death had the option, in most cases, to spread distributions over their life expectancy.

Everence

For account owner deaths that occur in 2020 or later, an individual beneficiary generally must liquidate their entire interest in the account within 10 years of the owner's death. An exception applies for certain beneficiaries, including surviving spouses, to take distributions over their life or a period not exceeding their life expectancy.

If you did any estate planning in the past that was based on a beneficiary's ability to spread income over their lifetime, you should discuss with your financial representative or attorney how this change impacts your plans.

Contributions to IRAs – SECURE Act

Prior to tax year 2020, people age 70½ or older were not allowed to contribute to a traditional IRA, even if they were still earning an income from a job. Beginning in tax year 2020, that prohibition has been removed.

Qualified Charitable Distributions (QCD) – SECURE Act

An account holder (or beneficiary) age 70½ or older can transfer up to $100,000 each year directly to a charity and can exclude that distribution from income. These rules have not changed even though the RMD age has been delayed to age 72. However, if you make deductible contributions to a Traditional IRA as noted above, those contributions will impact how much of your QCD you can exclude from income.

For example, Jerry turns 70½ in 2020. For tax years 2020-2023, he makes deductible IRA contributions of $7,000/year for a total of $28,000. In 2025, Jerry sends $30,000 to his church as a QCD. The amount that qualifies as a QCD is $30,000 - $28,000 = $2,000. The other $28,000 can be deducted as a charitable contribution if he has enough to itemize deductions.

Life Expectancy Table

When calculating the RMD you must receive each year, you divide your Dec. 31 balance from the previous year by a life expectancy factor provided by the IRS. The IRS has proposed an update to these tables that will increase the life expectancy factors, which may allow you to reduce the amount you need to receive each year. At this time, no final action has been taken, but if these new tables become effective, they will apply to the RMD calculation for 2021 for anyone receiving distributions over their lifetime.

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