Financially Speaking

New Year Comes with Big Changes for Retirement Accounts

It's not often that the federal government passes legislation that has a significant impact on how individuals plan their personal lives but the recent passage of the SECURE Act of 2019 I think will certainly qualify as one of those times.

The SECURE Act stands for "Setting Every Community Up for Retirement Enhancement" and it is one of the most sweeping pieces of bipartisan legislation that I have seen in a quite a while. The house and senate both produced similar bills that they ultimately merged together into the SECURE Act which they passed and was signed into law on December 20th.

The focus of the legislation was to update the rules related to retirement plans, with the primary goal of encouraging Americans to better prepare for retirement. There are 29 provisions in the bill, most related to retirement plans and accounts but also including a number of other changes, such as a couple of updates to college savings accounts.

The legislation is too long to summarize in one column so today I want to just focus on a couple of changes to IRA rules that may affect people right away this year.

Most people that have retirement accounts, either through an employer (such as a 401k, 403b or Simple IRA) or their own traditional IRA, know that they will eventually be subject to Required Minimum Distribution (RMD) rules. These rules require that the account owner take a distribution from the account of at least a minimum amount (calculated based upon their age and using a government table) each year once they reach a certain age. For some people this is quite a burden as the distribution is treated as ordinary income and can significantly add to their federal and state income taxes each year, especially if they are not yet retired and/or have sufficient cash flow from other sources.

Under the SECURE Act of 2019 the minimum age when Required Minimum Distributions must begin has increased from 70 ½ to 72. That means if you turn 70 ½ in 2020 you are no longer required to begin taking distributions from your retirement account(s). Instead you will be able to wait until the year in which you turn 72.

If you are someone who had planned ahead for having to start taking an RMD in 2020 it is important that you contact your financial or tax adviser prior to the distribution occurring to see how you are affected and make changes accordingly.

With a similar thought that many Americans are working into their 70's, the legislation also removed the age limit for contributing to traditional IRAs. In the past individuals were no longer able to make tax deductible contributions to traditional IRAs once they had reached age 70 1/2, even if they were still working and otherwise eligible. Congress recognized that many American’s are working longer and trying to catch up on their savings goals later in life so they removed the age limit, effectively allowing people to continue making tax deductible traditional IRA contributions as long as they are working and eligible to do so.

Like most legislation, there are provisions of the SECURE Act of 2019 that I think people will view as detrimental to investors but many of the provisions, such as the two I described today, are certainly intended to help Americans better prepare for and navigate retirement. I’ll explore some of the other provisions in future columns.

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