5 Things You Need to Know About the SECURE Act

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3. Small businesses and multiple-employer plans

The SECURE Act allows companies to create open multiple-employer plans (MEPs) where different types of employers can pool together to collectively offer a retirement plan to their employees. This reduces costs and administrative duties each employer would otherwise bear alone. Also, there is a tax credit of $500 for small businesses who start a retirement plan.

Not only is this a win for small employers, but also a huge benefit to people who work for them.

Additionally, the SECURE Act expands benefits to long-term part-time workers. Previous law disproportionately affected women as they tend to carry the burden of child/elder care and work part-time. Now, they can participate in 401(k) plans!

If you own a small business, talk to an advisor about participating in a MEP. If you work for a small business, ask your employer if they plan to make any changes.

4. New parents and student loan repayment relief

The SECURE Act allows new parents to withdraw up to $5,000 from their retirement plans to cover expenses related to the birth or adoption of a new child, without the 10% early withdrawal penalty. Taxes will still be due on the withdrawals.

It also allows withdrawals of up to $10,000 per person from 529 education savings plans for repayments on student loans. On top of this, the 529 plans may also cover costs associated with registered apprenticeships and homeschooling. We all know that student debt is skyrocketing, and this relief is much needed.

5. Bye-bye to stretch IRAs

The SECURE Act will no longer allow all beneficiaries who inherit an IRA to “stretch out” distributions over the beneficiary’s life. Instead, the inheritor must liquidate the account within 10 years, which decreases the value of the inheritance. There are a few exceptions, however, such as when the beneficiary is the surviving spouse, disabled or chronically ill, not more than 10 years younger than the deceased IRA owner, or a child who hasn’t reached age of maturity.

This curtailment on the stretch IRA shines some light on how important advance tax planning really is. Everyone who has a large IRA and likes their kids needs a plan to address the tax issue. There are other ways to leave behind money and draw down large IRA balances. Your advisor can help with this.

The main takeaways

Sustainability seems to be the focal point in the SECURE Act—more workers will have the ability to save for retirement and not outlive their savings. Equally important, the law will curtail the use of stretch IRAs, calling for advanced tax planning so that your assets are best protected at your death.

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