THE SECURE & CARES ACTS IMPACT ON RETIREMENT:

*WHAT YOUR CLIENTS NEED TO KNOW **NOW***

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The Setting Every Community Up for Retirement Enhancement (SECURE) Act single-handedly upended many long-standing retirement rules when it became effective on January 1, 2020. Shockingly, the SECURE Act was pushed to the back burner when all the world was impacted by the coronavirus pandemic. Only three months after SECURE was introduced to the American public, a second and equally enormous piece of legislation was passed - the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

How will history remember 2020? That is yet to be written and out of our control. How will your clients remember you and the actions you took during these trying times? It is said that crisis does not build character—*it reveals it.* Leading financial advisors, those who take the reins during one of the most uncertain and difficult periods in American history, need to be knowledgeable about both the SECURE and CARES Acts. As a leader, you must proactively communicate, educate and guide your clients through the morass. Here is what you need to know:

THE SECURE ACT

Age Limit Eliminated for Traditional IRA Contributions

Beginning for 2020, the SECURE Act eliminates the age limit for traditional IRA contributions (formerly 70½). If clients are still working, they can continue to contribute to a traditional IRA, regardless of age. This change will expand opportunities for clients to save with a traditional IRA and will allow older individuals with taxable compensation to take advantage of the backdoor Roth IRA conversion strategy.

RMD Age Raised to 72

The SECURE Act raises the age for beginning required minimum distributions (RMDs) to 72 for all retirement accounts subject to RMDs. Delaying the age for RMDs increases the "sweet spot" for retirement planning - that period of time when retirement account distributions can be taken penalty-free (after age 59½) and before RMDs are required (formerly age 70½ and now age 72). Since clients have complete flexibility during this expanded period to maximize historically low tax rates, distribution planning (including Roth conversions) should be at the top of your advisor/client conversation list.

QCDs Still Available at Age 70½

Leading advisors know that qualified charitable distributions (QCDs) are an increasingly popular option for clients looking to use the standard deduction and still get a tax break for a charitable contribution. While the SECURE Act delays the RMD age until 72, it maintained the age for QCDs at 70½. However, for clients considering both a deductible contribution to a traditional IRA at age

70½ or older and a QCD, your guidance is essential. Congress has created a complicated formula that can limit the tax break available for a QCD. Advising your older, charitably-inclined clients to make a Roth IRA contribution instead will avoid this mess.

New Exception to the 10% Penalty for Birth or Adoption

Beginning in 2020, the SECURE Act adds a new 10% penalty exception for births or adoptions. The exception applies to both IRAs and employer plans and is limited to $5,000 for each birth or adoption. To qualify, the distribution must be taken within one year from the date of birth or when the adoption is finalized. A married couple can each take a $5,000 distribution penalty-free from their retirement plans following the birth or adoption of a child. There is no requirement that the distributions be used for birth or adoption expenses. The birth or adoption distribution amount can be repaid at any future time (re-contributed back to a retirement account). Clients should be reminded that, even though the withdrawal is penalty-free, it is still taxable.

Expanded Benefits for 529 Plans; Fellowship and Stipend Payments Now Available for IRA Contributions

The SECURE Act expands 529 education savings accounts to cover costs associated with registered apprenticeships and up to $10,000 of qualified student loan repayments (including those for siblings). In addition, the SECURE Act brings new retirement savings opportunities for some students. Beginning with IRA contributions for 2020, the definition of “compensation” is expanded to include taxable fellowships and stipends for graduate or postdoctoral students. This will enable these students to make IRA contributions based on those payments.

Foster Care Workers Can Now Make Retirement Contributions

Foster care workers can exclude from taxable income certain “difficulty-of-care” payments from their employer. Under the SECURE Act, foster care workers can now use those funds to make certain IRA and employer plan contributions. The new rule applies to 2020 IRA contributions.

More Annuities in Employer Plans

There are several provisions of the SECURE Act designed to make it easier for employer plans to offer annuities to participants. Reviewing these employer plan statements is crucial. You may become aware of plans that now offer annuity investment options as well as increased portability features beginning in 2020. This presents an opportunity for the astute advisor to increase assets under management/advisement. Clients eligible to roll company plan funds over to an IRA might be better served working with you to select the best product for their retirement income needs. An IRA rollover may provide clients with more customized annuity product choices under your advisement than the limited employer plan options.

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Goodbye, Stretch IRA

With all deaths after December 31, 2019, the stretch IRA is replaced with a 10-year payment rule for the vast majority of beneficiaries. The rule requires accounts to be emptied by the end of the tenth year following the year of death. There are no annual RMDs. Instead, the only RMD on an inherited IRA is the balance at the end of the 10 years after death. The new 10-year rule applies to beneficiaries of both traditional IRAs and Roth IRAs. For deaths in 2019 or prior years, the old rules remain in place. Clients can continue the stretch if they are the beneficiary of one of these grandfathered accounts. However, any beneficiary named on the inherited account as a successor beneficiary will be subject to the 10-year rule under the SECURE Act.

Eligible Designated Beneficiaries

The 10-year rule does not apply to all beneficiaries. There are five classes of "eligible designated beneficiaries" (EDBs) who are exempt from the 10-year post-death payout rule and can still stretch RMDs over their life expectancy. These include surviving spouses, minor children (but not grandchildren), disabled individuals, the chronically ill, and beneficiaries not more than ten years younger than the IRA owner. EDBs can still stretch their inherited IRA over their life expectancy. But once they no longer qualify (i.e., when a child is no longer a minor), the 10-year rule applies.

Impact on Trusts

The elimination of the stretch IRA for most beneficiaries and replacement with the 10-year payout rule also includes most trusts. Many trusts will no longer work as planned under the new rules and could result in either large taxable distributions if IRA funds are paid to trust beneficiaries or high trust tax rates if the funds remain in the trust. This is where an advisor can prove to be a hero. Most clients will not realize that, under the SECURE Act, their trust may no longer meet their planning wishes. For all clients with trusts as their beneficiary, an immediate review of the trust document is imperative as many trusts will need to be updated.

THE CARES ACT

2020 RMDs Waived

The CARES Act was signed into law on March 27, 2020. The Act includes a waiver of RMDs for 2020. This waiver applies to IRAs, including both traditional and Roth inherited IRAs, and company savings plans like SEP, SIMPLE, 401(k), 403(b) and 457(b) plans. There are no special qualifications for having an RMD waived – it applies automatically. If clients already took their 2020 RMD, some or all of the money may be able to be rolled back or converted to a Roth IRA. Your guidance can help determine which clients are eligible for either strategy.

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Roth IRA Conversion Strategy

With the markets so depressed, now is a good time for clients to consider Roth IRA conversions. As a bonus in 2020, clients can convert all or a portion of their traditional IRA to a Roth without concern about taking the RMD prior to the transaction. In a normal year, the RMD is not eligible for conversion. Converting what would have been a 2020 RMD is a great planning idea for people who were already budgeting for the taxes due on the RMD. Leverage this strategy as another reason to contact clients.

Coronavirus-Related Distributions

The CARES Act provides special tax relief for retirement account distributions. While the definition of who qualifies for this relief is broad, it does not include everyone. Before making any transaction for your clients, be sure they fit the guidelines. Under current rules, a person is eligible to take a “coronavirus-related distribution” (CRD) only if they:

- Are diagnosed with the SARS-CoV-2 or COVID-19 virus based on an approved test; or
- Have a spouse or dependent who is diagnosed; or
- Experience “adverse financial consequences” on account of being quarantined; being furloughed or laid off or having your work hours reduced; being unable to work due to lack of childcare; or closing or reducing hours of your business.
- Clients who qualify can take up to $100,000 of distributions (aggregated) from IRAs and company plans in 2020 and receive the special tax relief outlined below. The CARES Act does not set any limits on how the distributed funds are to be used.

Special Tax Relief for CRDs

Clients who take a CRD will receive the following tax relief:

- No 10% early distribution penalty if they are under age 59½.
- The option to spread the federal tax on CRDs evenly over a three-year period beginning with the year of distribution.
- A three-year period to repay CRDs to an IRA or company plan. Taxes could be refunded on the amounts repaid with an amended tax return(s). Repayment does not have to be made to the same IRA or company plan from which the CRD was originally paid.

Relief for Plan Loans

If a client's company plan offers loans and your client is eligible to take a CRD, advisors will need to help navigate the best course of action. A plan loan in addition to (or instead of) a CRD should be discussed. For those who qualify, the CARES Act offers two plan loan relief provisions:

- The maximum loan amount is temporarily increased to the lesser of $100,000 (reduced by other outstanding loans) or 100% of the account balance. This rule applies to loans taken by September 22, 2020.
- Loan repayments for qualified individuals normally due between March 27, 2020, and December 31, 2020, may be suspended for one year.

HOW WILL YOU BE REMEMBERED?

2020 will go down in history as a traumatic and difficult year. More than ever, clients are searching for answers and direction. Gaping leadership holes beg to be filled by skilled advisors armed with the most current information. Crisis does not build character—*it reveals it*. Will your clients come to you for guidance, or will they go elsewhere? When these same clients look back on 2020, how will you be remembered?

For more timely advanced IRA education and resources to serve your clients, visit irahelp.com.