The SECURE Act
Death of the Stretch IRA

At the end of 2019, historic legislation was passed, marking a significant shift in the retirement landscape. This bill is known as the SECURE Act – an acronym for the effortlessly memorable Setting Every Community Up for Retirement Enhancement Act. Within the new law are a few meaningful changes that may impact your retirement planning, generational planning, and tax planning approach.

ELIMINATION OF THE STRETCH IRA

Prior to 2020, an IRA beneficiary could spread distributions over their lifetime. By spreading the distributions, or stretching, the beneficiary could take advantage of continued and long-term tax-deferred growth.

Hypothetical Scenario

A 44-year old inherited her parent's IRA in 2018 valued at $200,000. Using the life expectancy tables, she had the opportunity to stretch her required distributions over the next 40 years. In the first year, she was required to take $5,000 – or 1/40th. Assuming a constant balance, in the second year, she was required to take $5,128 – or 1/39th. In the third year, she was required to take $5,263 – or 1/38th and so on.

Starting in 2020, however, a beneficiary must liquidate the inherited IRA within 10 years.

Assuming the account owner passed away in 2020, that same beneficiary must now decide how much and how often to take distributions over the next 10 years. Do you distribute the entire amount in the final year, spread evenly each year, or something in between? As a 44-year-old, in potentially her highest-earning (and taxable) years, that may be a difficult decision to make without proper planning.

There are a few exceptions to the 10-year rule. Most notably spouses, disabled beneficiaries, and individuals who are less than 10 years younger than the IRA owner. Note that this rule also applies to retirement plans (401k, 403b, SIMPLE IRA, SEP IRA) and Roth IRAs.

REQUIRED MINIMUM DISTRIBUTION (RMD) AGE RAISED TO 72

Prior to 2020, IRA owners were generally required to start taking distributions the year in which they turned 70½. The SECURE Act has adjusted that to 72 for any individual who did not attain 70½ by the end of 2019.

REMOVED MAXIMUM AGE FOR IRA CONTRIBUTIONS

Before 2020, you were prohibited from contributing to an IRA after attaining RMD age. That has since been repealed. Although there aren't many individuals working into their 70s, for those that do, there are new opportunities to explore.

Reach out to a CERTIFIED FINANCIAL PLANNER™ to better understand the SECURE Act and how the sweeping changes may impact your future financial planning.

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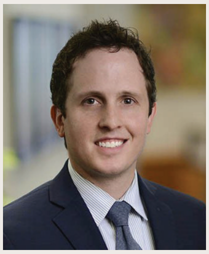

This **Industry Insight** was written by Matthew D. Kelly, CFP®.

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