SECURE-ing your retirement and legacy

Congress recently passed the Setting Every Community Up for Retirement Enhancement Act (the SECURE Act), which significantly impacts the laws affecting retirement accounts. Among other things, the SECURE Act:

1. Raises the required start date for required minimum distributions (RMDs) from pre-tax retirement plans from age 70½ to 72 to recognize increased life expectancy for account owners; this applies to individuals who turn 70½ after December 31, 2019. (Note: Account owners may still be able to make qualified charitable distributions from their retirement accounts starting at age 70½.)

2. Allows individuals to make contributions to traditional Individual Retirement Accounts (IRAs) at any age; under the prior law, individuals could not make contributions after reaching age 70½.

3. Requires that a beneficiary of a defined contribution plan or IRA (including, 401(k), 403(b), SEP IRA)—other than the owner's spouse, the owner's minor children, disabled or chronically ill individuals, and individuals less than 10 years younger than the owner—withdraw the entire balance of the account within 10 years after the owner's death, eliminating the beneficiary's ability to stretch the withdrawals (and the income tax liability) over his or her life expectancy; this applies to account owners who pass away after December 31, 2019.

4. Permits withdrawals without penalty (capped at $5,000) for qualified birth or adoption expenses; account owners may be able to recontribute amounts withdrawn under certain circumstances.

While the SECURE Act is intended, in large part, to modernize existing retirement legislation and to encourage retirement savings, the new 10-year beneficiary withdrawal requirement (item 3 above), which precludes some beneficiaries from stretching withdrawals from inherited retirement accounts over their life expectancies, may give pause to some account owners. This may be especially true for those considering a Roth conversion (and paying an immediate income tax on the converted amounts)—their beneficiaries will be required to withdraw these accounts over the potentially shorter 10-year period, limiting the amount of time for the inherited Roth accounts to grow income-tax-free. Nevertheless, it is important to remember that:

1. Spouses are exempt from the 10-year requirement and will continue to be able to stretch required withdrawals over their life expectancies. (Note: It is not certain whether trusts that qualify for the estate tax marital deduction will be afforded the same exemption.)

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2. For older individuals (including children) who are named beneficiaries of retirement accounts, the beneficiary's life expectancy (i.e., the length of time over which the beneficiary could withdraw the account under the prior law) may not be that much longer than the 10-year proposed limit. For younger individuals (e.g., grandchildren) named as beneficiaries, however, the limited ability to stretch payments likely will have a bigger impact. Consider the age of your retirement plan beneficiaries to understand the extent to which the 10-year limitation might impact your wealth plan.

3. Some beneficiaries who are in low income tax brackets or who need quick access to liquidity at the time they inherit retirement accounts may plan to withdraw the funds within a short timeframe anyway.

Be sure to speak with your tax advisors to understand how the legislation may affect you, and reach out to a J.P. Morgan Advisor to discuss changes to your wealth management strategy.

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