Tucker Ellis LLP

CLIENT ALERT

# IMPORTANT CHANGES TO RETIREMENT ACCOUNTS EFFECTIVE JANUARY 1, 2020

## DECEMBER 2019

On December 20, the SECURE Act[1] was signed into law, effective January 1, 2020. The Act makes significant changes to IRA, 401k, and all other types of qualified retirement accounts (collectively, "Retirement Accounts"). Some of the new rules will directly affect how individuals manage Retirement Accounts and, just as importantly, how certain beneficiaries inherit Retirement Accounts. While the ultimate results of the law are yet to be determined, the new rules of the SECURE Act aimed at Retirement Accounts call for an immediate review of beneficiary designations and estate plans to determine the actual impact of these significant changes.

Some of the key changes affecting one's estate and financial plan are:

- **Age Increase for the Beginning of RMDs.** The new law increases the age requirement from 70½ to 72 when a person must first take a Required Minimum Distribution ("RMD") from a Retirement Account. Historically, an individual's first RMD had to be made by April 1st of the year after reaching age 70½. Effective January 1, an individual's first RMD must be made by April 1st of the year after reaching age 72. This change applies only to individuals who reach age 70½ after December 31, 2019. If one reached age 70½ in 2019, then the first RMD must be taken no later April 1, 2020.

- **Traditional IRA Contribution Age.** The SECURE Act repeals the prior rule barring contributions to a traditional IRA after age 70½. Effective January 1, an individual may contribute to an IRA at any age provided the individual has earned wages/compensation.

- **Significant Changes to the Distribution Rules Concerning Inherited Retirement Accounts.** The technique commonly referred to as the "Stretch IRA" is effectively eliminated for a beneficiary who is not the spouse of a Retirement Account owner. Before, a non-spousal beneficiary who inherited a Retirement Account could "stretch" the RMDs from the inherited Retirement Account over the beneficiary's lifetime. This technique afforded such beneficiary significant tax savings and tax-deferred growth opportunities. Under the new rules, most non-spousal designated beneficiaries must withdraw the entire inherited Retirement Account within 10 years. This 10-year payout requirement does ***not*** apply to a beneficiary who (1) qualifies as disabled or chronically ill, (2) is fewer than 10 years younger than the Retirement Account owner, or (3) is a minor child of the Retirement Account owner (while a minor). It is important to note that the 10-year payout requirement does apply to grandchildren. If a trust is named as the beneficiary of a Retirement Account, a 5- or 10-year payout requirement may apply depending on the terms of the trust.

As with any new legislation, there are more nuances to the rules than discussed above. Given the passage of the SECURE Act, reviewing estate plans and beneficiary designations of Retirement Accounts is a priority in the new year for all Retirement Account owners.

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[1] The SECURE Act is an acronym for "Setting Every Community Up for Retirement Enhancement."

## ADDITIONAL INFORMATION

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