Lesser Known Provisions of the SECURE Act

What younger investors need to know.

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The SECURE Act passed into law in late 2019 and changed several aspects of retirement investing. These modifications included modifying the ability to stretch an Individual Retirement Account (IRA) and changing the age when IRA holders must start taking requirement minimum distributions to 72-years-old.[1,2]

While those provisions grabbed the headlines, several other smaller parts of the SECURE Act have caught the attention of individuals who are raising families and paying off student loan debt. Here's a look at a few.

Changes for college students. For those who have graduate funding, the SECURE Act allows students to use a portion of their income to start investing in retirement savings. The SECURE Act also contains a clause to include “aid in the pursuit of graduate or postdoctoral study.” A grant or fellowship would be considered income that the student could invest in a retirement vehicle.[3]

One other provision of The SECURE Act: you can use your 529 Savings Plan to pay for up to $10,000 of student debt. Money in a 529 Plan can also be used to pay for costs associated with an apprenticeship.[4]

Funds for a growing family. Are you having a baby or adopting? Under the SECURE Act, you can withdraw up to $5,000 per individual, tax-free from your IRA to help cover costs associated with a birth or adoption. However, there are stipulations. The money must be withdrawn within the first year of this life change; otherwise, you may be open to the tax penalty.[5]

Annuities and your retirement plan. This might be the most complicated part of the SECURE Act. It’s now easier for your employer-sponsored retirement plans to have annuities added to their investment portfolio. This was accomplished by reducing the fiduciary responsibilities that a company may incur in the event the annuity provider goes bankrupt. The benefit is that annuities may provide retirees with guaranteed lifetime income. The downside, however, is that annuities are often the incorrect vehicle for investors just starting out or far from retirement age.[6]

The best course is to make sure that you review any investment decisions or potential early retirement withdrawals with your advisor.

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Citations.

1 - Under the SECURE Act, your required minimum distribution (RMD) must be distributed by the end of the 10th calendar year following the year of the Individual Retirement Account (IRA) owner's death. A surviving spouse of the IRA owner, disabled or chronically ill individuals, individuals who are not more than 10 years younger than the IRA owner, and child of the IRA owner who has not reached the age of majority may have other minimum distribution requirements.

2 - Under the SECURE Act, in most circumstances, once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). Withdrawals from Traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. You may continue to contribute to a Traditional IRA past age 70½ under the SECURE Act as long as you meet the earned-income requirement.

3 - forbes.com/sites/simonmoore/2019/12/23/if-youre-a-graduate-student-the-secure-act-makes-easier-to-save-for-retirementtheres-how/#207d85d322ef [12/23/2019]. A 529 plan is a college savings play that allows individuals to save for college on a tax-advantages basis. State tax treatment of 529 plans is only one factor to consider prior to committing to a savings plan. Also consider the fees and expenses associated with the particular plan. Whether a state tax deduction is available will depend on your state of residence. State tax laws and treatment may vary. State tax laws may be different than federal tax laws. Earnings on non-qualified distributions will be subject to income tax and a 10% federal penalty tax.

4 - forbes.com/sites/simonmoore/2019/12/21/who-benefit-from-the-recent-changes-to-us-savings-programs/#4b86e86f6432 [12/21/2019]

5 - congress.gov/bill/116th-congress/house-bill/1994/text#toc-HCF4CC8DCF6E14B28968474EB935AB36D [05/23/2019]

6 - marketwatch.com/story/will-the-secure-act-make-your-retirement-more-secure-2020-01-16 [01/16/2020]. The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have contract limitations, fees, and charges, including account and administrative fees, underlying investment management fees, mortality and expense fees, and charges for optional benefits. Most annuities have surrender fees that are usually highest if you take out the money in the initial years of the annuity contact. Withdrawals and income payments are taxes as ordinary income. If a withdrawals is made prior to age 59 ½, a 10% federal income tax penalty may apply (unless an exception applies).