SECURE Act 2019

History of the SECURE Act of 2019

The SECURE act, also known as "The Setting Every Community Up for Retirement Enhancing Act" of 2019 was approved by the Senate on December 19, 2019, after originally passing through the House on July 19 as a part of an end of the year appropriations act. The bill accompanies tax measures and includes significant provisions aimed at increasing access to tax-advantaged accounts. It was signed into law by then-President Donald Trump on December 20, 2019. It was hoped the bill would prevent older Americans from outliving their assets. The SECURE Act 2019 has created immense changes for long-term retirement savings and is said to have financial impacts for Americans of every age.

The Current Retirement System.

The U.S. retirement system before the changes introduced by the SECURE Act had been lambasted often for various issues. The requirement to supplement Social Security with personal savings by most workers was especially criticized.

Shocking data according to the US Bureau of Labor Statistics published in 2020 revealed that only 55% of the civilian adult population participates in a workplace retirement plan. Out of which, those who invest any part of their pay check are notoriously hard to come by. Similarly, Vanguard, the investment management advisor, also revealed in 2019 that the median 401k balance of most people aged 65 and older is a mere $58,035.

This is where the SECURE Act comes in. It helps encourage employers who have previously refrained from engaging with these plans. Which were thought to be costly and difficult to administer. It brought about changes for Americans of all ages.

Older participants

The SECURE Act addresses concerns pertaining to those who are new to saving for retirement, despite their age i.e. allowing more opportunities for part-time employees, as well as experienced individuals. It helps those who are just starting their retirement journey by adjusting age limits on distribution and contribution of funds. Participants can now wait until 72 to start RMD.

Younger Participants

The SECURE act provides more opportunities for younger workers to take part in employers' retirement programs. The new rules allow new hires to be vested in the employer's 401k within the span of 12 months or after having worked more than 500 hours. It also provides opportunities for part-time workers to take part in their employer's retirement programs.

Prior to the SECURE Act of 2019

Perhaps the most important change of all, the SECURE Act is also said to fix what some believe to be an annuity loophole. The owner of the annuity is awarded the right to identify a primary and a contingent beneficiary in the event of their death before the depletion of the said annuity.

This can be called one of the most vital parts of the process. Deciding who would receive the money if something were to happen to you is a big decision. The rules for a beneficiary who will inherit were adjusted to ensure that the funds are distributed in time with the help of the SECURE Act of 2019. The Act requires that the contract be completely paid out within 10 years from the beginning of the payments. Whereas previously the annuitant's rules regarding when the beneficiaries can start receiving the annuity fund were dangerously vague. The Secure

Act 2019 however, does have a couple of exceptions to this rule, in the event of the beneficiary being underage or a spouse. The old rules would allow someone to stretch an inherited annuity. By removing the age limit, the ACT allows more seniors to contribute more to their retirement.

The SECURE Act changed the depletion of a participant's inherited IRA plans. The change forces participants to deplete the entire annuity within 10 years.

Distribution rules

The new rules state that the distribution rules should be disclosed after the annuity has been signed. These rules however don’t apply to the beneficiary who inherits the contract. Some lawmakers are of the opinion that beneficiaries might be tempted to use this loophole to stretch their annuity payments. This means that they would be paying less in taxes and bypassing higher tax liability.

A good example to help explain this new rule can be the following. A 40-year-old receives an annuity contract from a family member and begins taking payments immediately. They would be able to take payments for the next 20 or 30 years. The beneficiary would start taking payments in one tax bracket; being 40 years old they could be in the highest one and end in a lower tax bracket.

Further Major Provisions of the SECURE Act

The SECURE Act altered many rules related to tax-advantaged retirement accounts. Following are some of the major provisions of the SECURE 2019 act

1. Makes it easier for small businesses to set up 401(k)s by increasing the cap under which they can automatically enroll workers in retirement plans from 10% of wages to 15%.

2. Encourages sponsors to include annuities as an option in workplace plans by reducing their liability
3. Removes the age limit for IRA contributions
4. As medical bills and insurance rise for the everyday American, the SECURE Act allows penalty-free withdrawals of $5,000 from 401(k) accounts to cover the costs of having or adopting a child.
5. Helps older participants who are just starting their retirement journey, by increasing the required minimum distribution age has been increased to 72, up from 70 1/2.
6. Helps younger participants by making it easier for new hires to take part in their employers' retirement programs

These are just some of the improvements made to the SECURE Act, along with the few mentioned above, another key change in the bill was the payment method. The provision is known as the stretch IRA was removed, allowing non- spoused set to inherit retirement amounts to stretch out their disbursements over the course of their life. This new rule requires a full payout from the inherited IRA within 10 years of the death of the original account owner. Thereby raising, an estimated amount of $15.7 billion in additional tax revenue.

ABOUT THE AUTHOR

Brian Weeden is Founder and President of Gateway Senior Solutions LLC. He has 10+ years of financial, insurance, non-profit experience. He provides valuable insights and clarity about Medicare and personal finances, lifetime income, retirement plans, legacy building. He has been invited to write articles about Social Security and Medicare to help others understand some of the changes. When given the opportunity, he is honored to help you set financial priorities and retirement income goals to help you secure your future.

Brian earned his BA at the American Intercontinental University in Accounting and Finance while serving in Okinawa Japan. With Brian's education and work within the community he understands the changing world of personal finance, the challenges of planning for retirement and building a legacy for future generations. Rest assured, he will always make recommendations that are in best interest of the client. He loves breaking down complex concepts into bite size golden nuggets that helps everyone understands.

Lastly, Brian is a proud Veteran of the United States Army. He served for nearly 13 years, being able to explore many counties around the world. It was during this time he was able to find his passion of teaching and serving his community, which he believes is the glue that builds great communities. He's had the honor of serving the youth in his community with the Boys Scouts and Girl Scouts of America. He also served on the Board of Director for Big Brother Big Sister of El Paso. He is currently on the Board of Directors for the Veterans Business Association. When he is not working he loves to watch movies with his wife, support his children's goals and hang out with his three dogs.