PENTEGRA SECURE ACT SMART TIPS™

Preserving Retirement Savings—Changes to RMDs and IRAs

Today people are working longer and life expectancies have increased. As Americans live longer, an increasing number continue employment beyond traditional retirement age. The Setting Every Community Up for Retirement Enhancement (SECURE) Act helps preserve retirement savings with changes to Required Minimum Distributions (RMDs) and Individual Retirement Accounts (IRAs) to help preserve retirement savings.

Required Minimum Distribution Rules

How does SECURE change Required Minimum Distribution Rules?

The SECURE Act helps preserve retirement savings and increases the age for Required Minimum Distributions (RMDs) from age 70½ to age 72.

When does the new rule take effect?

The new rule is effective beginning in January, 2020.

Who does the new rule apply to?

The new rules apply to those turning 70½ in 2020. For individuals born on or after July 1, 1949 the Act increases the required minimum distribution age from 70½ to 72.

If a participant turns 70½ in 2019, are they still required to take their RMD as of April 1, 2020?

Yes, if a participant turned 70½ in 2019, they are still required to take their RMD as of April 1, 2020.

When will normally scheduled RMDs resume?

In 2021, normally scheduled required minimum distribution schedules will resume.

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What happens if a participant has already received a required minimum distribution in 2020?

Because this payment is now not required, it is considered an eligible rollover distribution. In general, participants have 60 days after you receiving the payment to make a rollover deposit. If a participant decides to rollover the distribution, they may make up any taxes that were withheld and roll the distribution to an eligible retirement plan, including the plan from which they took the RMD, or to an Individual Retirement Account ("IRA").

Individual Retirement Accounts

How does SECURE affect IRAs?

SECURE repeals the maximum age for traditional IRA contributions, and allows Individuals age 70 ½ or older to continue to contribute to IRAs beyond as long as they are still working. This change aligns the rules for IRA contributions more closely with 401(k) plans and Roth IRAs.

Does this apply to the 2020 tax year?

Yes. This change applies to tax year 2020 contributions.

What is a Stretch IRA?

A Stretch IRA is an estate planning strategy that extended the tax-deferred status of an inherited IRA when it was passed on to a non-spouse beneficiary.

How does SECURE change the rules for Inherited "Stretch" IRA distributions?

Previously, if you inherited an IRA or 401(k), you could "stretch" your distributions and tax payments out over your single life expectancy. Under the new law, inherited IRA beneficiaries will be required to withdraw assets from an inherited IRA or 401(k) plan within 10 years following the death of the account holder. Using the stretch IRA as a way to transfer intergenerational wealth is now by-and-large gone as a strategy.

Are there any exceptions?

Yes. Exceptions include assets left to a surviving spouse, a minor child, a disabled or chronically ill beneficiary, and beneficiaries who are less than 10 years younger than the original IRA owner.

Tip: These changes may necessitate reevaluating your retirement and estate planning strategies with your Financial Advisor.

Contact the Pentegra Solutions Center at solutions@pentegra.com
or 855-549-6689 for expert guidance on how to make the most of the new rules.