Texas Capital Bank®
Private Wealth Advisors

What the SECURE Act Means for You

Important Legislation Affecting Retirement Accounts

On December 20, 2019, President Trump signed into law the Setting Every Community Up for Retirement Enhancement Act ("SECURE Act"). The SECURE Act makes several changes to employer-provided defined benefit plans [such as 401(k) and 403(b) plans] and traditional individual retirement accounts ("IRAs").

These changes will impact both plan participants [i.e., the employee participating in a 401(k)/403(b) or the owner of a traditional IRA] and the beneficiaries of those accounts. The SECURE Act also impacts the beneficiaries of Roth IRAs while maintaining the existing law for account owners of Roth IRAs and their spouses.

The discussion below highlights three changes from the SECURE Act that merit special mention.

Increased Age for When Distributions Must Begin

Plan participants must start withdrawing a required minimum distribution ("RMD") from their defined benefit plans or IRAs once they attain a certain age.* Prior to the SECURE Act, the participant's first RMD had to be taken by April 1st of the year following the year when the plan participant reaches age 70½. Thereafter, the plan participant must take RMDs by December 31st of each year (including by the end of the year when they take their first RMD).

Thanks to the SECURE Act, plan participants who attain age 70½ after December 31, 2019, can delay that first RMD until April 1st of the year following the year when the plan participant reaches age 72. This change does not apply to those individuals who were already age 70½ or older by December 31, 2019.

Additional Contributions to Traditional IRAs Beyond Age 70½

An owner of a traditional IRA historically could not contribute to his or her IRA after he or she reached age 70½, even if he or she was still working. The SECURE Act eliminates this prohibition, starting January 1, 2020, so that owners of traditional IRAs can continue to fund his or her IRA even after reaching age 70½.

The SECURE Act maintains the current law that allows owners of Roth IRAs to make contributions to those accounts even after reaching age 70½.

Limited Deferral for Most Beneficiaries

The changes discussed above assist plan participants in saving for and funding retirement. In contrast, beneficiaries inheriting these accounts in most cases did not fare as well under the SECURE Act.

On the positive side, the SECURE Act preserves the ability of a surviving spouse named as beneficiary to roll a deceased spouse's defined benefit plan or traditional IRA into an IRA for the surviving spouse. The spouse can then delay taking an RMD until April 1st of the year after the surviving spouse attains age 72. Likewise, spousal rollovers of Roth IRAs are still permitted, and the surviving spouse is still permitted to keep the Roth IRA assets inside the account without any distributions during the spouse's life.

On the negative side, the SECURE Act eliminates the ability of non-spousal beneficiaries to spread out RMDs from an inherited IRA over that beneficiary's life expectancy. This applies to both traditional IRAs and Roth IRAs. Instead, most plan beneficiaries must now withdraw the entire account within 10 years of the participant's death. A longer deferral period is available in a small handful of cases, namely for beneficiaries that are minor children and for disabled or chronically ill individuals.

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These new restrictions only apply to beneficiaries of accounts inherited from plan participants who died after December 31, 2019. For existing accounts of participants who died before that date, the beneficiaries can continue to stretch out RMDs in the same manner as they have before.

We recommend that all clients with defined benefit retirement accounts and IRAs contact your private client advisor to discuss how the SECURE Act might impact your planning, both for your retirement and for your beneficiaries.

*Note that an employee participating in an employer-provided qualified retirement plan [i.e., 401(k) or 403(b) plan] can further delay their first RMD from that plan to April 1 of the year following the year in which the employee retires if the plan allows it and the employee does not own at least 5% of the employer.

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