

With a combined 50+ years of experience, 2X Wealth Group is committed to educating and empowering investors. We firmly believe financial literacy helps people make better decisions.

Retirement Plan Changes for 2020

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The SECURE Act (aka Setting Every Community up for Retirement Enhancement Act) went into effect on January 1, and contribution limits to workplace retirement plans have increased. **The consequences for retirees are mixed, with better contribution opportunities but worse consequences for their IRA beneficiaries.** Details of these important changes are described below.

What changed?

2020 Contribution Limits to Retirement Plans

The **maximum contribution to employer plans** (401k, 403b, etc.) is now **\$19,500** up from \$19,000 in 2019. If you are over age 50, the catch-up contribution limit rises to **\$6,500** versus \$6,000 in 2019. *If you can contribute more, make sure to increase your paycheck deductions to take advantage of the change.*

The **maximum IRA contribution for 2020 is unchanged at \$6,000.** Workers age 50 and older can make an **extra \$1,000 catch-up contribution**, the same as in 2019.

The SECURE Act

Congress passed the SECURE act to alleviate the brewing retirement crisis in America. The primary goals are to get more employer plans in place, to allow Americans contribute to their plans for longer (as our longevity has increased), and to allow savers the option of buying annuities within their employer plans. On the negative side, **the act seeks to limit the tax benefits to inheritors of IRAs by requiring them to withdraw all inherited funds within a 10-year time period.**

Rules Affecting Age Limits

Beginning in 2020, those working past age 70 ½ can continue contributing to traditional IRAs, which will match the existing rules for 401ks and Roth IRAs. This change opens the door to planning strategies such as back-door Roth IRAs later in life.

Increasing Annuity Options Within Retirement Plans

The new law reduces concerns about picking annuity providers inside 401k plans. For some people, lifetime income in the form of an annuity can help increase the longevity of a retirement income portfolio.

RMDs (Required Minimum Distributions)

The Secure Act increases the age after which qualified account holders, such as those with a traditional 401k or IRA, **must begin taking RMDs from 70 1/2 to 72**. This only applies to those who turn 70 1/2 in 2020 or later.

As under prior law, if you are still working after reaching the magic age and you don't own over 5% of the employer, you can postpone taking RMDs from your employer's plan(s) until after you've retired. **All Roth plans continue to avoid required minimum distributions.**

Inherited IRAs

Most **non-spouse IRA heirs** (e.g. children or grandchildren) **must now fully withdraw funds within 10 years of the owner's death**, rather than based on their life expectancy. The Secure Act takes effect for the death of IRA owners after Dec 31, 2019, so IRAs inherited before then still benefit from prior law.

How does the new law effect financial planning strategies?

In the past, an inherited IRA beneficiary was only required to withdraw funds based on his or her life expectancy. Therefore, most IRA owners planned on passing their IRAs to the youngest possible heir. The longer the IRA assets could grow tax deferred, the better, and younger beneficiaries were more likely to be in lower tax brackets as well. In the above cases, the government was effectively giving up tax revenue on accounts that were no longer true 'retirement' accounts. Hence, the change.

Considerations for Retirees:

- It may be better to name your spouse the beneficiary since he/she can inherit an IRA without being forced to liquidate it over 10 years.
- You may be better off spending your IRA accounts, consider using remaining balances for your charitable contributions, and pass on taxable assets that get a step-up in basis (tax free) to your children.

Considerations for Beneficiaries:

While the new law requires IRA beneficiaries to withdraw all funds within 10 years, they don't have to take those withdrawals annually. Instead, beneficiaries can remove funds at a pace of their own choosing (up to the last day of the 10-year period), allowing for individual tax planning.

- Postponing withdrawals allows for longer tax deferred compounding
- Withdrawals could be married with lower income years.

We can help guide you through these changes. Get in touch!



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