The SECURE Act

Prudential

Here's what you need to know about the Setting Every Community Up for Retirement Enhancement (SECURE) Act.

The Act was Designed to:

- Encourage more businesses to offer a retirement plan to their employees
- Encourage employees to save more for retirement

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Key Provisions:

1. **Increased Tax Credits for Small Businesses**
   Small businesses can receive a tax credit for retirement plan start-up costs up to $5,000. An additional tax credit of $500 a year for three years will be available if the plan offers automatic enrollment. Eligible employees will be automatically enrolled in the plan and will have to affirmatively elect out if they do not want to participate. Automatic enrollment increases both plan participation and savings rates among employees.

2. **Expansion of Multiple-Employer Plans**
   The Act permitted unrelated small businesses to share the administrative and financial burden of establishing and maintaining a retirement plan. It also shielded employers from the breach of another's administrative and fiduciary duties.

3. **Expansion of Plan Eligibility to Long-Term Part-Time Employees**
   The SECURE Act expanded employee coverage to those that have worked at least 500 hours per year for the past three consecutive years.

4. **Changed Start Date of Required Minimum Distributions (RMDs) for certain taxpayers**
   The SECURE Act changed the beginning date for RMDs to age 72 for taxpayers who reach age 70½ after Dec. 31, 2019. This provision delayed RMDs until age 72. This provision recognizes that life expectancy has increased since the first RMD rules were created in 1986.

5. **Repeal of Age Limitations for IRA Contributions**
   The legislation recognized that more Americans are living longer and working past normal retirement age. As a result, those over age 70½ with earned income are now permitted to contribute to a traditional IRA.

6. **Annuities and Lifetime Income Options in Retirement Plans**
   The SECURE Act included several provisions that encouraged employers to offer guaranteed lifetime income options in their retirement plans. The legislation simplifies some of the compliance and fiduciary rules by offering a safe harbor provision for annuities. It also requires the plan sponsor to provide plan participants with an annual disclosure that estimates the monthly payment an employee will receive at retirement.

7. **Modified "Stretch" IRA Rules**
   The SECURE Act requires beneficiaries to completely withdraw inherited IRAs and retirement plans within 10 years and pay the resulting tax liability.[1] The 10-year rule does not apply to some beneficiaries, such as surviving spouses, disabled individuals, minors of the account owner, and those who are not more than 10 years younger than the account owner.[2] Since retirement accounts make up the largest share of many Americans' net worth, the changes to the "stretch" distribution rules may encourage wealthier Americans to consider other more comprehensive estate planning strategies for their retirement assets.

[1]Beneficiaries will implement the 10-year rule differently, determined by whether the original IRA owner had died before or after starting Required Minimum Distributions. Beneficiaries of account owners who die before starting RMDs must distribute the account balance by Dec. 31 of the tenth year following the year the IRA owner dies but are not required to distribute money in years one through nine. Beneficiaries of account owners who die on or after starting RMDs must distribute the account balance by Dec. 31 of the tenth year following the year the IRA owner dies and are required to take RMDs in years one through nine.

[2]The Regulations issued in Feb. 2022 clarified certain aspects of the definitions of "Eligible Designated Beneficiaries": 1) A "minor child" is defined to reach the age of majority for SECURE Act purposes at age 21, regardless of state law. 2) Whether a beneficiary is "Disabled" or "Chronically Ill" is determined at the time of death of the IRA owner. The regulations require that beneficiaries provide documentation to prove eligibility. 3) An individual is determined to be "not more than 10 years younger" based on birthdates, not tax years.