January 21, 2020

SECURE Act Significantly Changes When You and Your Beneficiaries Must Take Distributions from IRAs and 401(k)s

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The Setting Every Community Up for Retirement Enhancement Act of 2019, simply known as the SECURE Act, which was passed by Congress on December 19, has been signed into law. The SECURE Act makes significant changes to when distributions must be taken from IRAs and defined contribution plans, such as 401(k)s. Beginning in 2020, the Act moves back the date by which the original account owner must begin taking required minimum distributions to age 72.

The Act also significantly limits the beneficiaries who may "stretch" out required minimum distributions from an inherited account based on their own life expectancies to the original account owner's spouse, disabled individuals and individuals less than 10 years younger than the original account owner. All others must withdraw the entire inherited account balance (and pay the attendant income taxes) within ten years of the original account owner's death. (This 10-year requirement is delayed for minor children of the original account owner until they reach majority.) The law does not apply to beneficiaries of account owners who died prior to 2020, but their beneficiaries will be subject to the new law.

Other changes made by the SECURE Act include eliminating the age cap on contributions to a traditional IRA, allowing penalty-free withdrawals of up to $5,000 per eligible parent to pay qualified expenses related to a birth or adoption, permitting $10,000 of 529 funds to be used to repay qualified student loans, allowing certain part-time employees to participate in their employer's 401(k) and returning the "kiddie tax" rate for unearned income of minor children to their parents' marginal tax rate.

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