

## Unpacking the SECURE Act, Part I

### How the new law affects your retirement

On Dec. 20, 2019, Congress passed the Setting Every Community Up for Retirement Enhancement Act of 2019 (the SECURE Act). The act is the first major piece of retirement legislation since the passage of the Pension Protection Act in 2006, and it seeks to help workers increase their retirement savings by loosening or eliminating the cost, administrative, and legal barriers that often prevent employers from offering retirement plans.

#### How the Act Became Law

Many in the financial services industry have been watching the bi-partisan bill make its way through Congress for the past three years. The bill was originally passed by the House in May of 2019 and politicians, lobbyists, and advocates alike regarded it as a major victory for working Americans.

However, the bill stalled in the Senate, despite bi-partisan support. Senate supporters originally moved to pass under unanimous consent—a fast-track option to passage without any changes. Yet, key provisions (mainly changes to 529 college savings accounts) led Senate lawmakers to place holds on the bill in June.

Then, in late December, the SECURE Act was incorporated into a broader 2020 fiscal year appropriations bill, approved by Congress on Dec. 19, 2019, and signed into law by President Trump on Dec. 20, 2019.

#### How the SECURE Act Affects Your Retirement Plan

The act's sudden passage caught industry participants by surprise, resulting in a scramble to consider its impact. The following is an overview of the provisions that directly affect the retirement plans of American workers, starting with the sections we believe will have the largest impact:

- No more “stretch IRA”

[Section 401](#) ultimately eliminates the Stretch IRA, an estate planning strategy that enables the non-spouse beneficiary of an IRA to extend the account's tax-deferred status.

Beginning Jan. 1, all non-spouse, human beneficiaries of all qualified benefits plans are required to take distributions within 10 years of the death of the account owner. Previously, beneficiaries could take distributions over their remaining life expectancy to help reduce the amount of taxes paid and increase the overall value of the IRA. By providing only a 10-year window, this measure is estimated to produce about \$15 billion in new tax revenue in the first 10 years.

##### *How it impacts you*

If you're a non-spouse beneficiary, the 10-year distribution window could cause you to be pushed into higher tax bracket and, depending on you—

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income, pay higher taxes on the overall distribution.

If you currently have an estate plan wherein you are leaving accounts to your heirs, you should work with your financial advisor to determine how the new law impacts these retirement accounts.

- [Increasing the required minimum distribution \(RMD\) age](#)

[Section 114](#) increases the age for beginning mandatory distributions from 70.5 to 72 years old. The previous age of 70.5 was set in the early 1960s and reflected average life expectancy at the time. The increase reflects today's life expectancy and seeks to encourage investors to use their retirement savings during their lifetime, rather than transferring them to their heirs.

#### *How it impacts you*

If you turned 70.5 years old in 2019, you still need to withdraw your RMD in 2020, or face a penalty of up to 50 percent of the initial distribution. You can wait for your initial withdrawal until April, then take another RMD by the following Dec. 31, and every Dec. 31 after.

If you turn 70.5 in 2020 and accidentally take the RMD, you may be able to take advantage of a 60-day rollover back into your account. However, because the law is still relatively new, financial advisors and retirement account providers are still determining the way forward. Speak to your financial advisor before taking action.

- [Saying goodbye to the maximum age cap for IRA contributions](#)

[Section 107](#) also takes into consideration longer life expectancies and does away with the 70.5 age cap. As more and more Americans live longer, they continue to work beyond what's considered traditional retirement age. This provision enables them to continue to contribute to their retirement accounts so they can be more financially prepared for the years they spend in full retirement.

#### *How it impacts you*

Beginning with the 2020 tax year, you can continue to contribute to your traditional IRA after reaching age 70.5. However, if you were 70.5 or older as of Dec. 31, 2019, you cannot make a contribution for the 2019 deadline of April 15, 2020.

Also, remember that the repeal only applies to traditional IRAs. Prior to the SECURE Act, there was no age restriction on Roth IRA contributions and that will not change.

- [Expanding the definition of "qualified higher education expenses" for 529 plans](#)

[Section 302](#) enables 529 education savings accounts to cover a wider range of costs associated with pursuing a private K-12 education or higher education. Previously, the account's "qualified expenses" were limited to \$10,000 in K-12 tuition and select college expenses.

#### *How it impacts you*

Effective for distributions made after Dec. 31, 2018, you will be able to use your 529 plan to cover a wider range of education expenses, including costs associated with apprenticeships, homeschooling, private elementary schools, secondary schools, or religious schools. The provision also enables you to cover up to \$10,000 of qualified student loan repayments in the beneficiaries'

lifetime, or the lifetime of their siblings. However, remember that any student loan interest that is paid for with the tax-free 529 plan is not eligible for student loan interest deduction.

- [Treating stipends and non-tuition fellowship payments as compensation](#)

[Section 106](#) treats certain non-tuition fellowship and stipend payments to students by universities as compensation for IRA purposes. More Americans are pursuing post-graduate education to further their skillsets and stay competitive in their respective job industries. A key driver in helping these students pay for their education and the costs associated with it are graduate stipends and fellowships. Prior to the passage of the SECURE Act, these payments were not treated as compensation and could not be used as the basis for IRA contributions.

#### *How it impacts you*

Beginning in 2020, if you are attending or starting a graduate school program, certain non-tuition payments provided to you by your university can be taken into account for IRA contribution purposes. As a result you'll be able to start saving for retirement and take advantage of tax-favored retirement savings while you are pursuing a post-graduate or doctoral degree.

- [Transferring lifetime income investments](#)

[Section 109](#) gives plan participants the ability to transfer lifetime income options. Previously, if a plan sponsor for a qualified defined contribution plan, section 403(b) plan, or governmental section 457(b) plan was no longer authorized to offer a lifetime income investment, you would have to withdraw the funds in your investment and possibly face surrender charges.

#### *How it impacts you*

Beginning in 2020, if your plan sponsor drops a guaranteed lifetime income investment as an investment option from their plan, you are able to transfer that investment to another eligible plan or IRA. This change helps preserve your lifetime income investments and avoid surrender charges and fees.

- [Long-time part-time workers can now participate in 401\(k\) plans](#)

[Section 112](#) requires certain employers offering 401(k) plans (with the exception of collectively bargained plans) to allow part-time employees to participate provided they meet certain length of employment and hours-worked requirements. Previously, employers were able to exclude these employees.

#### *How it impacts you*

If you have at least one-year of continuous employment and have worked at least 1,000 hours, or you have three consecutive years of employment and have worked at least 500 hours, you can now participate in your employer's 401(k) plan.

- [New parents can withdraw from retirement accounts without penalty](#)

[Section 113](#) enables workers to withdraw funds for any “qualified birth or adoption distributions” from their retirement plans without penalty.

#### *How it impacts you*

If you’re a new parent, you can withdraw up to \$5,000 from your retirement accounts to pay for qualified expenses related to the birth or adoption without facing a penalty. However, be sure to plan your finances early—the distributions must be made within one year in order to avoid penalty.

- [Increasing transparency with a lifetime income stream disclosure in 401\(k\) statements](#)

[Section 203](#) requires your defined contribution plan statement to include a lifetime income disclosure at least once a year. The disclosure—which the Secretary of Labor must provide a model for—is required to show “the monthly payments the participant would receive if the total account balance were used to provide lifetime income streams.”

#### *How it impacts you*

This disclosure will go a long way in terms of providing you with a clear, transparent, and easy-to-understand breakdown of the regular payments you’ll receive in your retirement given the balance of your retirement account. As a result, you’ll be able to see what actions you need to take in order to sustain your desired retirement lifestyle.

- [Older, more tenured employees can continue to accrue benefits in closed plans](#)

[Section 205](#) officially modifies nondiscrimination rules in regards to closed defined benefit plans to let existing participants continue to accrue benefits. Prior to the act’s passage, defined benefit plans that were frozen to new hires and served only a select group of employees found it difficult to pass nondiscrimination or minimum participation requirements since grandfathered participant groups were smaller in size and maintained higher salaries. Since 2013, the IRS has provided stopgap measures to provide relief on an annual basis starting in 2013, but the SECURE Act officially amends the previous rules.

#### *How it impacts you*

Effective Jan. 1, 2020, if you’re nearing retirement and have served your company or organization for a considerable amount of time, you can continue to accrue benefits without worrying about nondiscrimination or minimum participation rules. Just remember, this only applies if the plan is not modified in a discriminatory manner after it is closed to new hires.

## Addressing the New Legislation

The SECURE Act is the first piece of substantial retirement legislation in over a decade, and its various provisions seek to strengthen the retirement of millions of American workers. However, some retirement planners, industry professionals, and lawmakers believe the changes [do not represent the sweeping overhaul](#) the U.S. retirement system needs. Even then, what is clear is that the act does represent a step in the right direction.

Many of the SECURE Act's measures may require you to make changes to your current retirement accounts and/or estate plans. The above breakdown represents our initial impressions of the new legislation's various provisions. We encourage you to [speak to a financial advisor](#) to discuss the direct ways in which you may be affected by the new laws.

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