March 2020

ROCKEFELLER
GLOBAL FAMILY OFFICE

ROCKEFELLER INSIGHTS

The SECURE Act

In early December, the "Setting Every Community Up for Retirement Enhancement Act" (SECURE) passed in the House of Representatives with 417 of 420 Representatives voting in favor. The SECURE Act was signed into law on December 20, 2019, effective January 1, 2020.

The SECURE Act was primarily designed to provide additional incentives for individuals to save for retirement but has significant impacts on estate planning for retirement benefits. In particular, the key changes affecting clients' planning are as follows:

- IRA assets must be distributed within 10 years of the owner's death, unless made to an Eligible Designated Beneficiary.
- IRA owners may contribute to traditional IRAs after age 70 ½.
- The age for required minimum distributions increases from 70 ½ to 72.

Primary Impact

By far, the most controversial change has been the removal of the stretch IRA. Prior to the enactment of the new law, the so-called "stretch" was an attractive option, allowing the designated beneficiary of a decedent's retirement plan to stretch the distributions over many years after the plan owner's death. The annual distributions could be stretched over the beneficiary's (or oldest trust beneficiary's) life expectancy. However, this option has been eliminated for all designated beneficiaries but for limited exceptions; including:

- the IRA owner's spouse
- a minor child (but only until the age of majority, as determined by state law)
- a disabled beneficiary (under IRC § 72(m)(7))
- a chronically ill individual (under IRC § 7702B(c)(2) or
- a beneficiary who is less than 10 years younger than the retirement plan owner

For all other designated beneficiaries, retirement plan assets must be paid out over a 10-year period.

The SECURE Act also changed some of the lifetime rules. The starting point for required minimum distributions has been changed from 70 ½ to 72. Additionally, the age cap for traditional IRA contributions was eliminated, so workers can contribute to traditional IRAs regardless of age if they have earned income. Prior to the SECURE Act, individuals over age 70 ½ could not contribute to traditional IRAs.

What Remains The Same?

For individuals who turned 70 ½ before December 31, 2019, they are still required to continue Required Minimum Distributions (RMDs) under the old rules; taking an RMD for 2020 and each subsequent year thereafter. Qualified Charitable Distributions (QCDs) remain intact and are still allowed at age 70 ½ up to $100k annually.

ROCKEFELLER
GLOBAL FAMILY OFFICE

ROCKEFELLER INSIGHTS

The SECURE Act

Other Benefits

Despite mixed reception, the SECURE Act proves beneficial for some. Small business owners now receive a $250 annual tax credit (up to $5,000 each year for the first three years) for each employee that is provided a retirement plan, and an additional $250 for each employee that is auto-enrolled. Roadblocks for Multiple Employer Plans (MEPs) have been removed and they are now a more attractive option for small businesses to pool under a single retirement plan, reducing administrative costs and increasing the likelihood small businesses will adopt the programs for their employees. A small business owner who is also the sole employee can now receive up to $500 annual tax credit should they choose to engage in an employer plan. The SECURE Act also aims to assist part-time or seasonal workers. By law, an employer must now expand its 401(K) plan to their part-time employees who work at least 500 hours a year for three consecutive years, or 1,000 hours for one year.

The SECURE Act added a fiduciary safe-harbor for offering annuities inside employer-sponsored plans. Prior to SECURE, many companies were hesitant to offer annuity products because of liability issues surrounding insurer actions or obligations. With the new fiduciary safe-harbor, so long as an employer has adequately researched the annuity provider (insurance company), employee plan providers will not be responsible for any short-falls resulting from mismanagement of the insured funds.

The SECURE Act also provides added benefits for individuals, exempting early distributions from retirement plans from the 10% early withdrawal penalty if used for qualified birth or adoption (up to $5,000). Additionally, the SECURE Act now allows up to $10,000 of 529 Plan funds to be used towards the payment of student loans. These same funds can also be applied toward the tuition or student loans of a sibling without changing the plan beneficiary.

Closing

There are many items in the SECURE Act not covered in this update, but the sheer volume of change should encourage all to review their existing plans. In particular, if you have named children or trusts as beneficiaries of your retirement accounts, you should discuss the SECURE Act with your advisor to be sure you understand how this new law may impact you.

This material was prepared by Rockefeller Capital Management solely for informational purposes only. The views expressed are those of Rockefeller Global Family Office's senior investment professionals as of a particular point in time and are subject to change without notice. Actual events or results may differ materially from those reflected or contemplated herein. The information and opinions herein should not be construed as a recommendation to buy or sell any securities, to adopt any particular investment strategy, or to constitute accounting, tax, or legal advice. Forward-looking statements, including those presented here, are inherently uncertain, as future events may differ materially from those projected, and past performance is not a guarantee of future performance. No investment strategy can guarantee a profit or avoidance of loss.

The information and opinions presented herein have been obtained from, or are based on, sources believed by Rockefeller Capital Management to be reliable, but Rockefeller Capital Management makes no representation as to their accuracy or completeness. Although the information provided is carefully reviewed, Rockefeller Capital Management cannot be held responsible for any direct or incidental loss resulting from applying any of the information provided. This material may not be reproduced or distributed without Rockefeller Capital Management's prior written consent.

Rockefeller Capital Management is the marketing name for Rockefeller Capital Management L.P. and its affiliates. Investment advisory, asset management and fiduciary activities are performed by the following affiliates of Rockefeller Capital Management: Rockefeller & Co. LLC, Rockefeller Trust Company, N.A. and The Rockefeller Trust Company (Delaware), as the case may be.

Rockefeller Financial LLC is a broker-dealer and investment adviser dually registered with the U.S. Securities and Exchange Commission (SEC). Member Financial Industry Regulatory Authority (FINRA); Securities Investor Protection Corporation (SIPC). The registrations and memberships above in no way imply that the SEC has endorsed the entities, products or services discussed herein. Additional information is available upon request.

Products and services may be provided by various affiliates of Rockefeller Capital Management.

© 2020 Rockefeller Capital Management. All rights reserved. Does not apply to sourced material.