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2019 SECURE Act Impacts to Retail IRAs

While you were likely celebrating the holidays in December, Congress passed the SECURE Act and the legislation was signed by the President into law on December 20, 2019. *The provisions are effective January 1, 2020, giving very little lead time for you to prepare for the changes. Read on to see what you have to do quickly to revise your support configuration for qualified retail annuity contracts.*

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The specific impacts to retail IRAs that require attention are:

- The begin date to require that a minimum distribution occurs from traditional IRAs was changed from attained age 70 and ½ to attained age 72. Treasury is considering making a change to the life expectancy tables used to perform the RMD calculation as well, but this has not yet occurred. For now, continue to use the old tables but the new attained age of 72.
- When an owner of a traditional IRA dies, a beneficiary is entitled under Federal law to take the proceeds from the account in a number of forms. Before the new legislation, an eligible beneficiary (i.e. anyone other than an estate) could take the proceeds in the form of a life expectancy calculation, referred to as a 'stretch IRA'. Under the new law, only the spouse of the deceased may continue to exercise a life expectancy option. All other types of natural (i.e. human) relationships have to liquidate proceeds in a period not to exceed 10 years. This one change has major implications for individuals who were planning to pass traditional IRA legacies on to children and grandchildren. Of course, there are a number of exceptions to still allow a limited set of non-spouse individuals to use the life expectancy method and these will require gathering further information about the 'eligible designated beneficiary' situation during claim processing. These named exceptions include:
  1. Beneficiary is disabled
  2. Beneficiary is chronically ill
  3. Any other person that is not more than 10 years younger than the deceased IRA owner
- Prior to the new law, contributions of new money into a traditional IRA were not allowed once an individual reached the age of 70 and ½. Since people are working longer, this 'age cap' concept has been removed to recognize this change. Now individuals who choose to continue to work and earn income can continue to contribute to traditional IRAs and enjoy tax deferred savings.

Are you ready to take on these changes? Changes impact rules monitoring deposits, age used to complete the details on form 5498 and allowed payout options under claims adjudication. Now is the critical time to adopt these revisions into your administrative processes as they are all effective as of January 1 2020.

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