Facet
WEALTH

SECURE Act

Setting Every Community Up for Retirement Enhancement

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A quick disclosure:

Please speak to your Facet financial planner before taking action on any information provided. How the SECURE Act impacts your taxes and your financial plan should be addressed individually. These are not recommendations.

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The big question:

Will the SECURE Act really make Americans more financially secure in retirement?

SECURE Act
what is it?

Part of a $1.4 trillion appropriations bill passed by Congress and signed into law by President Trump in late December (which included the SECURE Act).

2,313 page bill

125 page SECURE Act

Designed to improve retirement security for more Americans.

SECURE Act

what it does

Four general themes / topics:

1. Changing laws for Individual Retirement Accounts (IRAs)
2. Provisions aimed to increase access to retirement plans for employers and employees
3. Provisions aimed at improving retirement income security
4. Other provisions - the random “stuff” (technical term) that was slipped in

SECURE Act

what it does

How I will break it down:

Before SECURE | **After** SECURE

- Examples & impact level discussions (low, medium, high)

There is a lot to cover so:

- new **“FastTrack”** program

Impact on IRAs

Individual Retirement Account provisions

1. Increases RMD age to 72
2. Eliminates age cap on contributions to an IRA
3. Eliminates the IRA “stretch” provision for inherited IRAs
4. New penalty-free provision for the birth of a child or adoption

Impact on IRAs

required minimum distributions (RMDs)

Before SECURE

1. Required minimum distributions started at age 70 1/2
2. Does not apply to Roth IRAs which do not have RMDs

After SECURE

1. RMDs start at age 72
2. Roth IRAs remain unchanged - no RMDs

* The change in the RMD age requirement from 70½ to 72 only applies to individuals who turn 70½ on or after January 1, 2020.

Impact on IRAs

required minimum distributions (RMDs)

Impact level

Low

My Thoughts

“OK, this makes sense”

- The IRS/Government wants their taxes
- We are living longer

Impact on IRAs

maximum age for contributions

Before SECURE

1. Required minimum distributions started at age 70 ½
2. Not allowed to contribute past age 70 ½ (even with earned income)
3. Roth IRA contributions allowed at any age (w/ earned income)

After SECURE

1. RMDs start at age 72
2. Can contribute to IRA at **ANY** age
3. Roth IRA contributions unchanged

   *** Must still have earned income**

This change doesn't apply for tax year 2019, as it will begin for tax year 2020 contributions. You can make your tax year 2020 contribution up until April 15, 2021.

Impact on IRAs
maximum age for contributions

Impact level

Low

My Thoughts

- Positive change
- We are living longer and working longer
- “Retirement” is being redefined
- Roth IRA might make more sense at this stage

Impact on IRAs

elimination of the “stretch” provision

But Brent...what is the “stretch” provision?

Applies only to **inherited** accounts for **non-spouse** beneficiaries

Let’s say you inherit an IRA

- ❏ Distributions over your **lifetime**
  - ❏ There are RMDs (required minimum distributions)
- ❏ “Stretches” the life of the IRA
- ❏ Extends tax-deferred growth

****Inherited IRA distributions are reportable as TAXABLE income!**

Impact on IRAs
elimination of the “stretch” provision

Before SECURE

1. Distributions over your **lifetime**
    - RMDs (required minimum distributions)

After SECURE

1. The “10 year rule” - distributions over **10 YEARS**
2. No required minimum distributions
3. Entire account distributed by 10th anniversary

*Exceptions to the 10-year rule include assets left to a surviving spouse, a minor child, a disabled or chronically ill beneficiary, and beneficiaries who are less than 10 years younger than the original IRA owner or 401(k) participant.

*For inheritances that occur after January 1, 2020

Impact on IRAs

elimination of the “stretch” provision

Let’s look at an example:

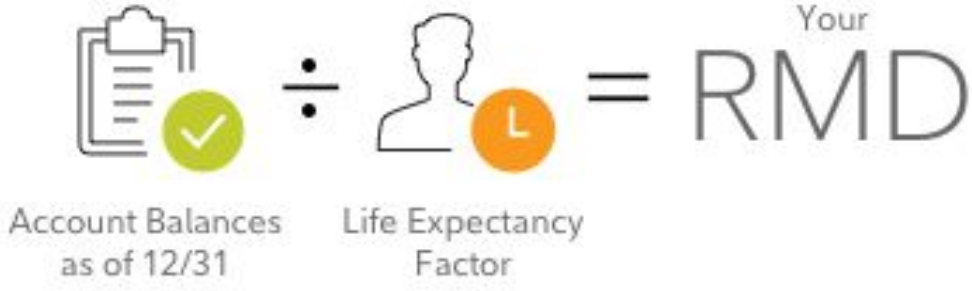
Single lifetime table for inherited IRAs [before SECURE]

Age	Life Expectancy Factor
21	62.1
22	61.1
23	60.1
...	...
45	38.8
46	37.9
47	37.0

Impact on IRAs

the “stretch” provision **before** SECURE

Let’s look at an example - **inherit $100,00 at age 45**



Year 1	**$100,000**	**38.8**	**$2,577**
		-1	
Year 2	**$100,000**	**37.8**	**$2,645**
		-1	
Year 3	**$100,000**	**36.8**	**$2,717**

Must report on tax returns

Impact on IRAs

the new “10 year rule”

After SECURE

Let’s look at some examples for the new **10-year rule**

Quick recap

Distributions over **10 YEARS**

No required minimum distributions

Entire account distributed by 10th anniversary

Impact on IRAs

the new “10 year rule”

Must report on tax returns

$100,000 inherited IRA (for simple math) - **scenario 1**

Year	Withdrawal
1	$10,000
2	$10,000
3	$10,000
4	$10,000
5	$10,000
6	$10,000
7	$10,000
8	$10,000
9	$10,000
10	$10,000

Assumes no growth of assets for purposes of this example

Impact on IRAs

the new “10 year rule”

Must report on tax returns

$100,000 inherited IRA (for simple math) - **scenario 2**

Year	Withdrawal
1	$0
2	$0
3	$0
4	$0
5	$0
6	$0
7	$0
8	$0
9	$0
10	**$100,000**

Assumes no growth of assets for purposes of this example

Impact on IRAs

elimination of the “stretch” provision

Impact level

Medium

My Thoughts

- I like the simplification of the process
- Typically inherit money between 40 and 50 (highest earning years)
- Creates a greater need for distribution planning
  - The potential tax issues of faster distributions
  - More strategic Roth conversions during the life of the account owner

Impact on IRAs

new penalty free provisions

Before SECURE

1. Non-qualifying distributions prior to age 59 ½ will be subject to taxes (which is always the case) **AND a 10% premature distribution penalty.**

After SECURE

1. Allows for **penalty free** distributions for the **birth or adoption of a child**.
2. Remember: you still pay federal and state income taxes

   However, there are limits...

   - Up to $5,000 (per parent / account owner) → $10,000 per married couple
   - Within 12 months of the qualifying event

Impact on IRAs

new penalty free provisions

Let's look at an example - assume a $10,000 distribution in both scenarios

Before SECURE

20% tax bracket (fed + state)	$2,000
10% early w/d penalty	$1,000
Net distribution	$7,000

After SECURE

20% tax bracket (fed + state)	$2,000
~~10% early w/d penalty~~	~~$1,000~~
Net distribution	$8,000

Impact on IRAs
new penalty free provisions

Impact level

Medium

My Thoughts

- I’m a fan (access your own money for life events)
- Life happens so flexibility is a good thing
- I worry about families reducing retirement savings for today’s expenses
- Proper planning is always the best strategy

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Improving Retirement Security

Changes to retirement income provisions

1. Quick 401(k) plan history lesson
2. Annuities within 401(k) plans
3. Lifetime income disclosure requirements

Improving retirement security

the YOYO economy

Before the 401(k)

Defined Benefit (DB) Plans

1. Pays defined benefit (i.e. income amount) at defined retirement ages
2. Pension plans are employ**ER** funded.
3. Employ**ER** carries majority of risk…or do they?

After 401(k)

1. Revenue Act of 1978 - Created Section 401(k)
2. Employ**EE** funded model primarily
3. Risk transferred to employ**EE**

The shift towards the **YOYO Economy**

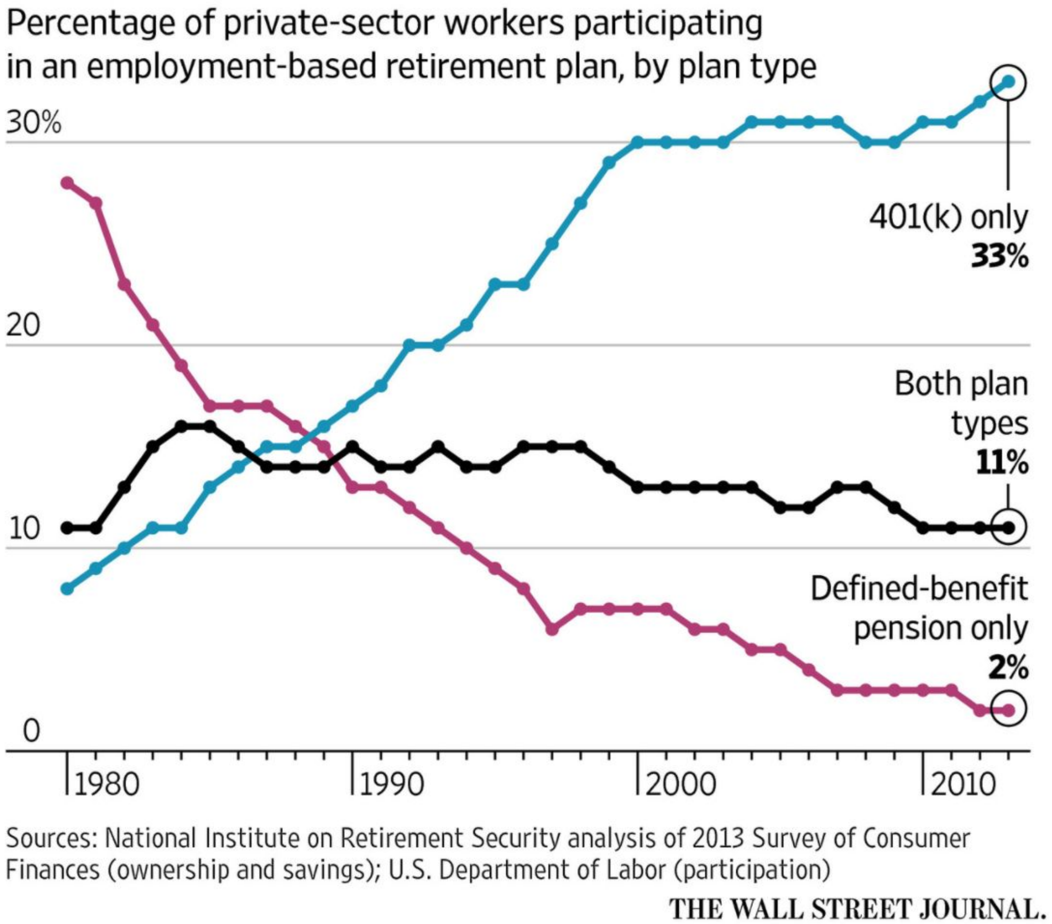
"You're On Your Own"

It's now up to YOU to prepare for retirement

Improving retirement security

the YOYO economy

The "risk" of being prepared for retirement is transitioning to YOU.



Improving retirement security

annuities as investments in 401ks

Before SECURE

1. Annuities were already allowable investment options
2. BUT very few plans (*less than 10%*) offered them due to **risk and liability concerns**

   (what happens if the annuity carrier cannot meet their obligations?)

After SECURE

1. Fiduciary Safe Harbor for selecting a "Lifetime Income Provider" (i.e., annuity company)
   a. Improves the liability protection for employers offering annuities
2. Plan annuities are now portable (i.e they can move with you)
3. **The idea**: help employees create their own personal "pensions".

Improving retirement security
annuities as investments in 401ks

What is a fiduciary safe harbor rule?

- ❑ If the employer can demonstrate they followed **fiduciary procedures prescribed by regulators**, they will be insulated from liability associated with those procedures.

Examples of procedures:

1. Licensed by the state insurance commissioner to offer guaranteed retirement income contracts.
2. Filed audited financial statements in accordance with state laws.
3. Maintained reserves that satisfy all the statutory requirements of all states where the annuity provider does business (i.e. financially sound).

Improving retirement security

annuities as investments in 401ks

Impact level

High

My Thoughts

- Annuities can be expensive
- Are employERs qualified to pick the right annuity?
- Are employees properly educated?
    a. When do you use an annuity?
    b. How much to invest?
    c. What does this mean when you retire?
    d. What about flexibility and access to money?
    e. At what age do I make this election?

The bottom line: The solution is not about more complexity. The solution needs to be greater access to quality financial advice for employees so they are educated and empowered to make their own decisions.

Improving retirement security

lifetime income disclosures for retirement plans

Before SECURE

1. Account statements show one thing → your balance **TODAY**

After SECURE

Adds:

1. Requirement to show a lifetime income disclosure at least every 12 months
   a. How much income the lump sum balance, in retirement, could generate

The kicker: The new disclosure statements aren't required until one year after the IRS issues interim final rules, creates a model disclosure statement or releases assumptions that plan administrators can use to convert account balances into annuity equivalents, whichever is latest.

Improving retirement security

lifetime income disclosures for retirement plans

What this could look like on a statement

XYZ 401(k)	XYZ 401(k)
Balance: $100,000	**Balance:** $100,000 **Annual contrs**: $10,000 **Expected return**: 7% **Time horizon**: 20 years **Future balance**: $800,000 [rounded up] **Est. income (month)**: $2,700

Remember: $2,700 today is not the same as $2,700 in the future. Our **purchasing power decreases** over time due to **inflation.**

* Remember: The IRS has not issued final rules or guidelines around how to calculate these figures. These are just for illustrative purposes.

Improving retirement security

lifetime income disclosures for retirement plans

Impact level

Medium

My Thoughts

- This is generally a good change. Showing what contributions and savings will generate in retirement will help Americans better understand their retirement readiness.
- It's only one small step in understanding what amount is needed for a financially secure retirement.
    - What does retirement look like?
    - How much is enough?
    - What if I am not saving enough?

FastTrack

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Increasing Access

To retirement plans for employers and employees

1. New 401(k) tax credits
2. Eligibility for long-term, part-time employees
3. Revision of multiple employer plan requirements

Increasing access

new 401(k) tax credits

FastTrack

Before SECURE

1. Cap on tax **credit** for small business retirement plan start-up costs of $500
2. No credit for plans with auto-enrollment features
3. Auto-enrollment contributions capped at 10%

After SECURE

1. Tax **credit** for start-up costs increased to $5,000
2. New $500 tax **credit** for 401(k)s and SIMPLE IRAs that include auto-enrollment
   a. + for plans that convert to auto-enrollment
3. Increases auto-enrollment contribution cap to 15%

Increasing access
new 401(k) tax credits

Impact level

Medium

My Thoughts

- In favor of these changes
- I question changes in adoption (time will tell)
- 401(k) plans can be expensive for small businesses
- Greater access to retirement savings for Americans is a win

Increasing access
long-term, part-time employees

Before SECURE

1. In general, an employee must be allowed to participate in a qualified retirement plan if he or she:
   a. Has reached age 21
   b. Has at least 1 year of service (1,000 hours of service)

After SECURE

1. Starting in 2021, the new retirement law guarantees 401(k) plan eligibility for employees who have worked:
   a. at least 500 hours per year for at least three consecutive years.
   b. and be 21 years old by the end of the three-year period.
2. First eligible in 2024

Increasing access
long-term, part-time employees

Impact level

Low

My Thoughts

- Good idea as employees can participate in a match but…
- Will this change enrollment and savings?
- How many part-time employees can take advantage of retirement plans?
- Is this better than an IRA / Roth IRA?

Increasing access

multiple employer plans (MEPs)

FastTrack

Before SECURE

1. Multiple employer plans (MEPs) allowed for **RELATED** businesses (e.g. same owner)
2. “One bad apple rule” - one company can disqualify plan or create adverse tax consequences

After SECURE

1. Creates the **“open”** multiple employer plan
   a. Completely unrelated employers to participate in a MEP
2. Eliminates the “one bad apple rule”

Increasing access

multiple employer plans (MEPs)

Impact level

High

Roughly 50%

private sector employees that DO NOT have access to a 401(k)

30.2 million

small businesses < 500 employees

- Greater scale, cost efficiencies, lower administrative burdens BUT...
- Need a mechanism to drive adoption

https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf

The Random "Stuff"

Off the beaten path provisions

1. New 529 plan "qualified expenses" provision

The random “stuff”

qualified education expenses for 529 plans

Before SECURE

1. Tax-free distributions allowed for “qualified expenses” related to post-secondary school
   a. Tax Cut and Jobs Act of 2017 → $10,000 per year for K-12 education
2. **Cannot** use to repay student loans

After SECURE

1. “Qualified Education Loan Repayments” as a qualified higher education expense
   a. Both principal and interest of qualified education loans

The random “stuff”

qualified education expenses for 529 plans

Some other facts:

1. The $10,000 lifetime limit is a per-person limit
2. An additional $10,000 may be distributed to pay for student debt for each of a 529 plan beneficiary’s siblings.

Something to look out for: the portion of student loan interest paid for with tax-free 529 plan earnings is not eligible for the student loan interest deduction. There is no “double dip”.

Check with your own 529 plan before withdrawing funds. Account holders in states that do not go along with the new federal rules may be subject to state income taxes and penalties, or possibly a repayment of state tax breaks.

The random “stuff”

qualified education expenses for 529 plans

Impact level

Low (current) / Medium (future)

My Thoughts

- Good move
- Greater flexibility will encourage greater adoption of 529 plans
- Often hear the question “college is so far away and there are many unknowns...how can we properly save?”

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The big answer:

A few small changes that just make sense
Open multiple employer plans are a good idea - but adoption?
I like the added flexibility for IRAs and 529 plans

BUT...I think it falls short of what American families really need.

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Q&A

THANK YOU!

Additional questions:

Contact your lead planner

OR

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