5 Ways Advisors Can Take Advantage of the SECURE Act

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Yesterday's passage of the SECURE Act means big changes in retirement planning, from better options for SBOs and their employees to the problematic dissolution of stretch IRAs. Here's how to get started in helping your clients.

With yesterday's passage of the SECURE Act (which is still awaiting the President's signature), we are seeing by far the biggest retirement-oriented legislation to pass in over a decade. The new law is a very good thing for some retirees—and not such a good thing for others. Barely half (51%) of the workforce is covered by a retirement savings plan through their employer, and the SECURE Act is meant to address this issue, among other things. We address below the ways that advisors can help their clients take advantage of the SECURE Act.

1. Required minimum distribution age increased to 72

One of the biggest changes in the SECURE Act is the Required Minimum Distribution (RMD) age being increased 18 months. Rather than people being required to take RMDs at age 70½, RMDs will start at age 72. This will allow workers another year-and-a-half to build their retirement accounts.

And luckily for all concerned, 72 is a less confusing age to deal with than 70½. This will give advisors one less thing to worry about having to explain to their clients when it comes to retirement and RMDs.

- The starting age increase will certainly lessen confusion by doing away with the half-year issue.
- A couple, for example, can sock away another $14,000 a year using spousal IRAs.
- A later starting age for RMDs allows for additional tax deferrals.
- Investors can continue to contribute to a traditional IRA past age 70½, as long as they have earned income.

2. Employers can offer annuities in 401(k) plans through the safe harbor provision

Retirement policy experts have argued for years that low-cost annuities can protect retirees from outliving their savings. Indeed, 80% of 401(k) plan participants have indicated a willingness to put all or some of their money in a guaranteed lifetime income option. The SECURE Act allows this option by creating a safe harbor for employers to offer annuities. Under the safe harbor provision of the SECURE Act, the burden will be placed on insurers to provide employers with the right annuity products.

Providing an annuity option means that more people will likely take the annuitization route, which is what the SECURE Act aims to accomplish, as an annuity can act in place of a "traditional pension." In addition, easier access to annuities in retirement plans could discourage people from withdrawing retirement assets prematurely, as limitations could be placed on withdrawals. It also requires that defined-contribution plans deliver a lifetime-income disclosure to participants at least once every 12 months.

- An annuity can be a good choice for clients who do not have adequate resources for retirement. It gives them the ability to have a consistent income throughout their retirement, and a guarantee that they will not outlive their assets.
- The lifetime-income disclosure would show how much income the lump sum balance in the retirement account could generate, giving clients a better idea of their potential income stream in retirement, allowing them to better plan for the nonworking years.

3. Small businesses and multiple-employer plans

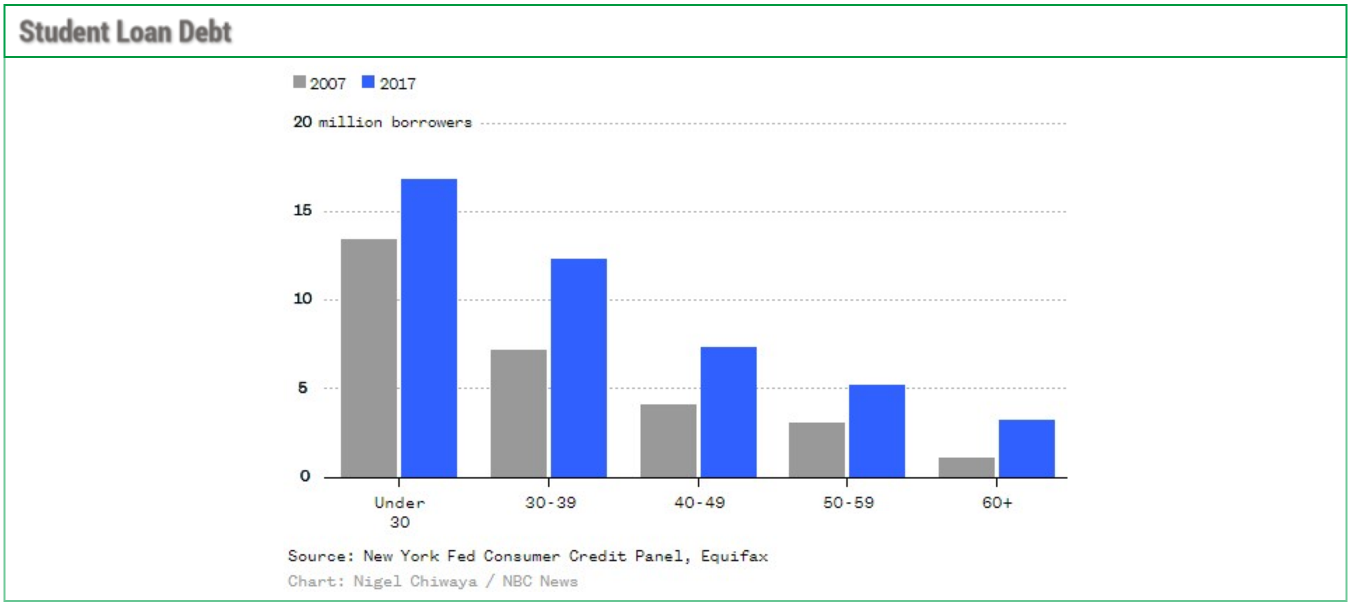
The SECURE Act will allow companies to create open multiple-employer plans (MEPs) and will thus encourage retirement savings. Employers will be allowed to join a pooled arrangement that permits different types of employers to collectively offer a retirement plan to their employees for the first time ever. On top of this, there is a tax credit of $500. Thus, small employers without an affiliation can band together to offer a common 401(k) plan to their workers. This will reduce the costs and administrative duties that each employer would otherwise bear alone.

Not only is this a win for small employers, but it also provides a huge benefit to people who work for these small companies. Allowing businesses that don't share commonality to join an MEP and removing the Department of Labor's "bad apple" rule (which holds all employers in an MEP liable for the regulatory and financial failings of each employer in the plan), should incentivize businesses to begin looking at MEPs more closely. In addition, the SECURE Act encourages automatic enrollment and will expand benefits to long-term part-time workers.

- The current law disproportionately affects women, because they tend to be responsible for child and elder care and may not be able to participate in 401(k) plans if they work part-time. Now, they can participate!
- Small businesses previously had no incentive to set up 401(k) plans since it was an expensive and administrative challenge, but now the administrative burden and fiduciary responsibility can be placed on a plan administrator and a $500 credit exists.
- Advisors who have clients that work for small businesses should encourage them to open retirement plans and participate in MEPs.

4. New parents and student loan repayment relief

The SECURE Act will now allow new parents to withdraw up to $5,000 from their retirement plans to cover expenses related to the birth or adoption of a new child, without the 10% early withdrawal penalty. Taxes will still be due on the withdrawals.



Source: NBC News

It also allows withdrawals of as much as $10,000 from 529 education-savings plans for repayments on student loans. On top of this, the 529 plans may also cover costs associated with registered apprenticeships. According to NBC News, the numbers of American over the age of 60 with student loan debt has more than doubled in the last decade. As the chart above shows, the numbers are truly staggering when it comes to student loans, so the relief provided in the SECURE Act is much needed.

- Advise clients of childbearing age of the opportunity to withdraw from IRA's.
- Advise clients with student loans of the repayment option through Section 529 plans.

5. Bye-bye to stretch IRAs

The SECURE Act will no longer allow all beneficiaries who inherit an IRA to "stretch out" distributions over the beneficiary's life when liquidating the account. Instead, it requires liquidations within 10 years of the newly inherited account, which decreases the value of the inheritance. There are a few exceptions, however, such as when the beneficiary is the surviving spouse, disabled or chronically ill, not more than 10 years younger than the deceased IRA owner, or a child who hasn't reached age of maturity.

This curtailment on the stretch IRA shines some light on how important advance tax planning—including a Roth IRA—really is. In fact, according to the Congressional Joint Committee on Taxation, doing away with the stretch IRA is expected to generate about $16 billion in additional revenue for the government over the next decade. These numbers will only grow as baby boomers retire and then eventually die with large IRA balances that they are leaving to their heirs. There are some ways around this, and every advisor should be working with their high-net-worth clients to get around this situation.

- Everyone who has a large IRA and likes their kids will want a plan to address the tax issue.
- Taking away the stretch IRA solidifies the Roth IRA's effectiveness, and the need for tax diversification.
- Consider making qualified charitable distributions (QCDs). QCDs are direct transfers from an IRA to a qualifying charity of up to $100,000 per year, which has numerous tax advantages.

- Consider naming a charitable remainder unitrust (CRUT) as beneficiary. This will permit tax deferral over the term of the CRUT, in turn raising the value realized by the noncharitable beneficiary.

Takeaways: Advantage to us Americans

Sustainability seems to be the focal point of this law, meaning that more clients will have the ability to save for retirement and not outlive their savings. Equally important, passage of the SECURE Act severely curtails the use of stretch IRAs, calling for advanced tax planning so that clients' assets are best protected at their death.

Research assistance provided by Jared Marzocco.

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