SECURE Act of 2019

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, was signed into law by President Donald Trump on December 20, 2019 as part of the Further Consolidated Appropriations Act, 2020 (2020 United States federal budget).

The SECURE Act changed the most popular retirement plans used in the United States and was the first major retirement-related legislation enacted since the 2006 Pension Protection Act. Major elements of the bill include: raising the minimum age for required minimum distributions from 70.5 years of age to 72 years of age; allowing workers to contribute to traditional IRAs after turning 70.5 years of age; allowing individuals to use 529 plan money to repay student loans; eliminating the so-called stretch IRA by requiring non-spouse beneficiaries of inherited IRAs to withdraw and pay taxes on all distributions from inherited accounts within 10 years; and making it easier for 401(k) plan administrators to offer annuities.

Legislative history

Richard Neal, the U.S. Representative for Massachusetts's 1st congressional district and chairman of the House Ways and Means Committee, introduced the SECURE Act as H.R. 1994 on March 29, 2019. The bipartisan bill was co-introduced by Ranking Member Kevin Brady (R-TX) as well as Reps. Ron Kind (D-WI) and Mike Kelly (R-PA). It passed the House Ways and Means Committee on April 2, 2019 and passed the full House on May 23, 2019 by a vote of 417–3.

In the Senate, a companion bill called the Retirement Enhancement and Savings Act (RESA, S. 972) was introduced by Senator Chuck Grassley (R-Iowa), chairman of the Senate Finance Committee. This bill, co-sponsored by Ranking Member Ron Wyden (D-OR), failed to advance in committee.

Elements of both bills were incorporated into the fiscal year 2020 spending bill (H.R. 1865). The SECURE Act, as part of the spending bill, was passed by the House on December 17, 2019 by a vote of 297–120 and by the Senate on December 19, 2019 by a vote of 71–23. It was signed into law by President Donald Trump on December 20, 2019.

Provisions

The SECURE Act was drafted to assist in saving and investing for retirement. To that end, it contains a number of provisions to incentivize retirement planning, diversify the options available to savers, and increase access to tax-advantaged savings programs.

Defined-contribution plan changes

For employers

The SECURE Act incentivizes employers to create 401k plans and to expand access to their existing plans to more workers. One provision allows unrelated small employers to join together to establish a shared 401(k) plan known as a Multiple Employer Plan (MEP). This allows small businesses to pool resources and mitigate the administrative expenses of establishing a plan. MEPs existed prior to the SECURE Act, but under the previous law they were required to be related in some way (e.g. through geography or through membership in a common industry or trade association). The SECURE Act waived this requirement for MEPs.

Employers who offer annuities as part of their defined-contribution retirement plans are shielded from liability under a new safe-harbor provision even if the insurance company selling the annuity commits fraud or collapses, as long as they meet specific regulatory requirements.

For employees

Participants in 401(k) and other defined-contribution plans (including traditional IRAs) can delay taking required minimum distributions until they reach the age of 72, an increase from the current age of 70.5. Participants are also permitted to continue contributing to traditional IRAs even after turning 70.5, which was previously prohibited. The SECURE Act also permits graduate students to treat stipends and non-tuition fellowship payments as compensation for the purposes of contributing to IRAs.

Under the SECURE Act, parents can withdraw up to $5,000 from their individual 401(k) or similar workplace retirement savings plans for each new child without incurring the 10% additional penalty tax for taking an early distribution.

Employees who purchase an annuity in their 401(k) can move their annuity to another 401(k) plan at a different employer or to an IRA without paying surrender charges or other penalty fees.

529 plan changes

The SECURE Act allows people saving money in a tax-advantaged 529 plan to use up to $10,000 to pay off student loans. 529 plans can now also be used to pay for the costs of apprenticeship programs.

Tax changes

The SECURE Act partly revises the 2017 Tax Cuts and Jobs Act (TCJA), repealing certain "kiddie tax" provisions that increased taxes on the benefits received by family members of deceased United States military veterans and graduate students.

Funding

The SECURE Act is estimated to cost $15.7 billion. It is primarily funded through a change to "stretch" IRAs. In the past, non-spouse beneficiaries who inherit IRAs could spread disbursements from the IRA over their lifetime. Under the SECURE Act, disbursements must be collected and taxed within 10 years of the original account holder's death. This provision shortens the time period in which tax-advantaged accounts can grow and will increase the taxable income of beneficiaries during that ten-year period, generating tax revenue to fund the cost of the law.