Financial Planning Insights

Proposed "SECURE Act 2.0" May Boost Retirement Savings

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The House of Representatives introduced a new bipartisan bill on October 27 called Securing a Strong Retirement Act of 2020 (SSRA). With a majority of Americans falling behind with their savings, this bill would nudge individuals in the right direction. Michael Townsend, Vice President, Legislative and Regulatory Affairs, says, "It's not likely this will be passed into law this year, but the bill has backing from key leaders on both sides of the aisle, so it stands a very good chance of getting voted on in 2021."

Although you should stay the course with your financial plan while this bill remains pending, be aware of the key provisions that can impact you.

Increase the Required Minimum Distribution (RMD) age from 72 to 75.

Additionally, if you have less than $100,000 of retirement assets in all your retirement accounts, you'll be exempt from the RMD rules.

Bill Impact: The age increase would provide greater flexibility for distributions for those who are between ages 70½ and 75. If passed into law, you could take advantage of the greater time period to incrementally convert a portion of your traditional IRA into a Roth each year or make Qualified Charitable Distributions.

Increase catch-up contribution limits.

SSRA proposes to increase the 401(k) catch-up amount for those 60 or older from $6,500 to $10,000 ($3,000 to $5,000 for SIMPLE plans), inflation-adjusted. Although IRA catch-up contributions would not increase from this bill, they will also receive an annual inflation adjustment.

Bill Impact: This change would allow older workers, who are behind on their retirement savings or who want to defer taxable income opportunistically, to make even larger contributions to their retirement accounts. With RMDs pushed out to age 75, these investors could use the additional time to grow savings.

Allow employer-matching into a 401(k) for student loan payments.

To help ease the choice between paying off student loans and participating in an employer-sponsored retirement plan, SSRA would allow employers to treat qualified student loan payments as elective income deferrals for the purpose of an employer-matching contribution.

Bill Impact: If you're juggling large student debts and expenses, this provision would help. However, if you're looking to get ahead, consider steps to pay off student debt and contribute money into your 401(k). Individual contributions into a 401(k), no matter how small, can add up over time and potentially grow even more thanks to the power of compounding.

Make Qualifying Longevity Annuity Contracts (QLACs) more attractive

SSRA would eliminate barriers preventing some people from benefiting from a QLAC. SSRA would repeal the 25%-of-account-balance limit and increase the purchase amount from $135,000 to $200,000, inflation-adjusted.

Bill Impact: QLACs are a form of deferred income annuity that pay later in life (usually age 85). In exchange for waiting, the payout amount is larger than if you purchased an annuity and started income today. And, contributions are removed from the RMD calculation. If you believe that you'll live a long life and can wait until your mid-80s to tap the QLAC, you could benefit from the increased purchase limit of this provision.

Increase Qualified Charitable Distributions (QCD) to $130,000.

The current QCD limit is $100,000 per year upon turning age 70½. SSRA would increase the limit to $130,000.

Bill Impact: If you're charitably-minded, this provision could give you greater options to give. Along with a higher QCD limit, the bill would allow a one-time QCD distribution to a charitable gift annuity or charitable remainder trust that can create a stream of income for a period of time and leave the remainder to charity.

Other proposed changes in the bill:

- Promote saving earlier by enrolling employees automatically in their company's 401(k) plan, for new plans after the bill becomes law.
- Create a new financial incentive for small businesses to offer retirement plans.
- Increase and modernize the existing federal tax credit for contributions to a retirement plan or IRA (the Saver's Credit).
- Make it easier for military spouses who change jobs frequently to save for retirement.

What should you consider next?

SSRA is a promising new bill for retirement savers. However, it has a long way to go before becoming law, including passage through both chambers of Congress and a Presidential signature. We don't suggest doing anything based on this bill yet, in our view, until it has a clear path to becoming law.

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Roth IRA conversions require a 5-year holding period before earnings can be withdrawn tax free and subsequent conversions will require their own 5-year holding period. In addition, earnings distributions prior to age 59 1/2 are subject to an early withdrawal penalty.

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