Two New Laws: What You Need to Know

SECURE & CARES

Amidst all the chaos going on recently, it has been more important than usual to stay on top of your retirement and financial goals. The government has recently passed 2 laws that may impact your retirement plan. Let's take a look at how the SECURE Act and the CARES Act may impact you.

The SECURE Act

The SECURE Act stands for "Setting Every Community Up for Retirement Enhancement" and went into effect on January 1, 2020. The SECURE Act focuses on growing the number of companies that offer retirement plans by implementing tax incentives for small businesses to do so.

One important change is that many company retirement plans are allowing annuities as investment options. The upside is that an annuity can provide a guaranteed stream of lifetime income where non-guaranteed investments might not last if markets don't perform. This is a key benefit in modern times now that people are living longer than ever. Keep in mind, at 59 ½ you can withdraw money from your 401K via the in-service withdrawal provision and place it into an annuity of your choosing. You are likely to find better options than the ones offered by the employer plan by shopping a variety of annuity providers.

Perhaps the most impactful change made by the SECURE Act was the increase in the Required Minimum Distribution (RMD) age from 401(k)s and IRAs from 70 ½ years old, to 72 years old for those who turn 70 ½ in 2020 or later allowing retirement savings to remain tax deferred and to compound a little longer. This bill also allows Americans to continue to make contributions to their IRAs regardless of how long they choose to work.

The CARES Act

The CARES Act was drafted and passed in a response to the economic fallout caused by the COVID-19 pandemic. Perhaps the most well-known fact about the CARES Act is that it suspends RMDs for 2020- regardless of age. Don't need it...Don't take it. Keep in mind you will still need to take it out later and if you are in a higher tax bracket then than you are now, you would be better off (mathematically) taking it this year anyway.

Besides bailout money and stimulus payments to individuals and small businesses, this law has provisions to allow funds to be withdrawn early from retirement accounts such as 401(k)s and traditional IRAs without tax penalties. Eligible participants may take early distributions of up to $100,000 per person, from all combined retirement accounts, without incurring the 10% penalty tax for receiving funds prior to age 59 ½. The law also eliminates the mandatory 20% tax withholding requirement that usually applies to 401K distributions. However, the penalty forgiveness and tax withholdings eliminations only apply if paid back within 3 years, so unless you really need the funds, plan on treating it as a loan.

Speaking of loans, the CARES Act has relaxed the rules on taking loans from some retirement accounts (401Ks, 403Bs, 457 plans) by increasing the legal loan limit up to 100% of the vested balance, or $100,000, whichever is less- from the previous limit of the lesser of 50% or $50,000 vested. These loans must be paid back within 5 years, with the time clock beginning in 2021. In order to qualify to take advantage of these CARES Act provisions, you or a spouse or a dependent must be diagnosed with COVID-19, experience a layoff, furlough, reduction in hours, inability to work, or a lack of childcare due to the outbreak. It is important to note that the CARES Act does not mandate that all plan sponsors allow their participants to provide these provisions, so check with your plan sponsor first.

The CARES Act increases your tax deductions for charitable donations in 2020. Those who do not claim an itemized charitable deduction will be able to get a $300 deduction. The Tax Cuts and Jobs Act of 2017 (TCJA) allowed charitable contribution deductions of up to 50% (later bumped to 60%) of your adjusted gross income (AGI). The CARES Act eliminated the cap altogether for 2020. This means that you can deduct money and gifts valued at up to 100% of your AGI for this year if you make qualified charitable donations. If you are feeling charitable, this is your year!

With the emergence of these 2 new laws, you would be wise to consider reviewing your retirement plan to see if you can benefit from taking advantage of any of these options or maybe find out if there any disadvantages before jumping in and regretting it later.

For more information, or assistance reviewing your retirement plan with the SECURE or CARES Acts in mind, please contact us at 520-780-9059.

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