NAVIGATING THE SECURE ACT

Harlow
WEALTH MANAGEMENT

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Retirement in America is changing: We're spending more time in it and more money – specifically our own money. While most retirees can count on a Social Security check, less can rely on a pension. As Americans are forced to rely more on their own savings in retirement, their lifespans and cost of living increase and those savings must stretch further than ever before.

The purpose of the Setting Every Community Up for Retirement Enhancement (SECURE) Act is to address some of these issues. It's the biggest piece of retirement legislation to be passed in years and includes many important changes for those in and preparing for retirement. These changes can have important tax and estate planning implications for retirees and their heirs. In a changing retirement landscape, it's important to seek out advice on how to create and update your retirement plan so that you can take advantage of the opportunities and avoid the pitfalls. At Harlow Wealth Management, we can explain how the SECURE Act could affect you specifically. Laws are complex but your objectives may be as simple as:

- **Find strategies to help minimize your taxes**
- **Work to grow your savings**
- **Pass on your wealth to your loved ones.**

OPPORTUNITIES FOR RETIREES

Required Minimum Distributions Will Start at Age 72

After years of tax-deferred growth in a traditional retirement account such as a 401(k) or IRA, you are typically required to withdraw a certain amount each year. Required Minimum Distributions (RMDs) were due starting at age 70 ½ but are now due at age 72.[1] This means that retirees have more time to let their savings grow tax-deferred in a 401(k), 403(b), 457, IRA, or other qualified retirement plan. Note that changing the RMD age from 70 ½ to 72 doesn't eliminate the possibility that you will have to take two RMDs in one year. This can happen if you delay your first RMD until the year after the year in which you turn 72 and then take your second one by December 31st of that same year. For example, if you turn 72 in 2022, you will have until April 1st, 2023 to take your first RMD. Your second RMD will be due by December 31st, 2023. All subsequent RMDs are due by December 31st.

Age	Distribution Period	Age	Distribution Period
72	27.4	86	15.2
73	26.5	87	14.4
74	25.5	88	13.7
75	24.6	89	12.9
76	23.7	90	12.2
77	22.9	91	11.5
78	22.0	92	10.8
79	21.1	93	10.1
80	20.2	94	9.5
81	19.4	95	8.9
82	18.5	96	8.4
83	17.7	97	7.8
84	16.8	98	7.3
85	16.0	99	6.8
		100	6.4

[2]

[1] Section 113 https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SECURE%20Act%20section%20by%20section.pdf
[2] https://www.myfederalretirement.com/rmd-rules/

OPPORTUNITIES FOR RETIREES

OPPORTUNITIES

More Time for Tax Planning

Although you are not required to withdraw from traditional retirement plans until age 72, you can withdraw starting at age 59 ½ and sometimes age 55. Since RMDs can potentially require you to withdraw more money than you otherwise would, they could push you into a higher tax bracket and could mean the loss of tax-free growth. That's why it's important to plan ahead for RMDs. Deciding when to start withdrawing, how much to withdraw and where else to draw income from can affect your tax burden in retirement. One option is a Roth IRA conversion. Roth IRA contributions are taxed, money grows tax-free and can be withdrawn tax-free*. Also, you are never required to take RMDs from your own Roth account. While you can do Roth conversions while you are taking RMDs, it may be better to do it before.

No Age Limit on Traditional IRA Contributions

Prior to the passage of the SECURE Act, you could not contribute to a traditional IRA after the age of 70 ½. In 2022, workers age 50 and older can contribute up to $7,000 a year to an IRA. Keep in mind that even if you are still working and contributing to a traditional IRA, you will need to take Required Minimum Distributions from a traditional IRA starting at age 72.

[3] Section 106 https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SECURE%20Act%20section%20by%20section.pdf
* Unless certain criteria are met, Roth IRA owners must be 59 or older and have hold the IRA for five years before tax-free withdrawals are permitted.

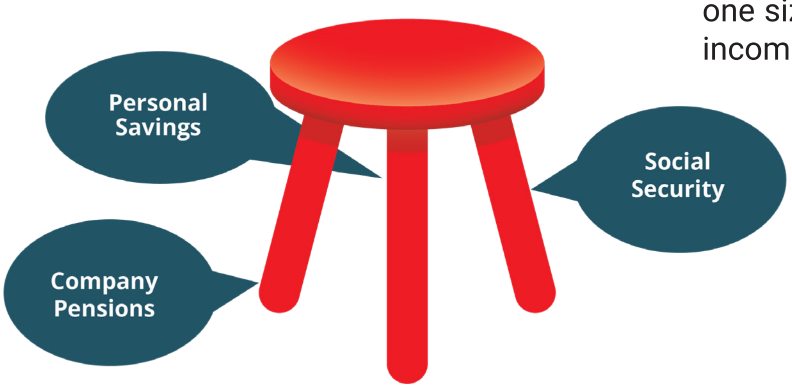
OPPORTUNITIES FOR RETIREES

Are You Planning to Make a Qualified Charitable Distribution?

Once you reach age 70 ½, you can make a Qualified Charitable Contribution (QCD) of up to $100,000 per year.[4] This means that you can give money to a qualified charity tax-free, directly from your IRA. Keep in mind that the $100,000 limit is reduced by the aggregate amount of deductions allowed for prior tax years, effective in a tax year beginning after 2019. This means that if you continue to make deductible IRA contributions after age 70 ½, it will reduce your QCD limit.

Projected Income Disclosures

The burden of funding retirement has shifted more to the individual since Baby Boomers started their careers. Fewer retirees have pensions and must rely on their own savings. To address this, the SECURE Act requires 401(k) plan administrators to provide annual lifetime income disclosure statements to plan participants. These give an estimate of how much money someone could have per month if they used 401(k) funds to purchase an annuity.[5] While this is helpful for getting a sense of how far your savings could stretch, it assumes a one size fits all approach to creating retirement income.



[4] https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-iras-distributions-withdrawals
[5] Section 203 https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SECURE%20Act%20section%20by%20section.pdf

OPPORTUNITIES FOR PART-TIME WORKERS AND PARENTS

Savings Opportunities for Part-Time Workers

As the gig economy takes hold and more retirees are working part-time, more employers may offer part-time employees' access to a workplace retirement plan. The SECURE Act will make it easier for small business owners to set up retirement plans for employees by letting more small businesses band together to offer Multiple Employer Plans.[6]

Penalty-Free Withdrawals for New Parents

Typically, there is a penalty for withdrawing from retirement plans before the age of 59 ½. The new law allows parents to withdraw up to $5,000 penalty free in the year of the birth or adoption of a child.[7] If both parents have their own retirement plans, they can each withdraw up to $5,000 for a total of $10,000.

Expanded 529 Plan Benefits

The SECURE Act expands the benefits of 529 savings plan. Plan owners and beneficiaries can now distribute a maximum of $10,000 to cover qualified student loan repayments. This chance means parents, grandparents, or other family members have the option to contribute to a student's 529 plan while a student is in college or an apprenticeship program, and then use those funds to repay loans tax-free after graduation.[8]

[6] Section 111 https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SECURE%20Act%20section%20by%20section.pdf
[7] Section 112 https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SECURE%20Act%20section%20by%20section.pdf
[8] https://www.investopedia.com/articles/personal-finance/020217/can-i-pay-student-loans-my-529-plan.asp

A MAJOR CHANGE FOR INHERITED IRAS

End of the "Stretch" IRA

The stretch IRA wasn't another type of IRA, it was an estate planning strategy that allowed heirs to stretch out distributions based on their own life expectancies, instead of the life expectancy of the previous owner. This meant that a younger person who inherited an older person's IRA, 401(k), or other qualified retirement account, could have more time for the funds to grow tax-free and take smaller distributions. Now, most non-spouse beneficiaries will not have this option and must drain an inherited account within ten years of the original owner's death.[9] This means funds have less time to grow tax-free and larger distributions could result in a bigger tax burden for heirs.

The good news is that the new rule doesn't apply to retirement accounts inherited before 2020.[10] There are also some exceptions where heirs do not have to drain the account in 10 years:

- ***A Spouse***
- ***Minor Children***
- ***Individuals not more than 10 years younger than the original owner***
- ***Disabled or chronically ill individuals***

Make sure to review your beneficiary designations with this in mind. If the beneficiary of your IRA or 401(k) is a trust, make sure to review how it dictates distributions. Even non-spouse beneficiaries who inherit a retirement account through a trust will have to empty it within 10 years.

[9] Section 401 https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SECURE%20Act%20section%20by%20section.pdf
[10] https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions

A MAJOR CHANGE

Overcoming Estate Planning Challenges: Alternative Strategies

While there is no direct replacement for the stretch IRA, there are a number of alternative estate planning strategies:

- *Converting part or all of a traditional IRA or 401(k) to a Roth IRA*
- *Drawing down an account during the original owner's lifetime and reinvesting the funds*
- *Using a step-up in basis for appreciated assets*
- *Choosing an IRA beneficiary whose tax burden will be least affected by the new 10 year rule*
- *Using a trust*

Maximize Strengths, Minimize Weaknesses

With every rule change comes opportunities and risks. The SECURE Act brings many changes and your retirement and estate plans should react accordingly. At Harlow Wealth Management, we can help you recognize new opportunities and overcome challenges. The SECURE Act will affect most retirees in some way, but how so will depend on each person's unique financial situation. We can help you create a plan tailored to your specific needs and continue to work with you throughout your retirement.

DISCLAIMER:

Harlow Wealth Management, Inc., is an SEC Registered Investment Adviser and an insurance agency registered with the State of Washington and other states. Investing involves risk, including the potential loss of principal invested. Please remember that converting an employer plan account to a Roth IRA is a taxable event. Increased taxable income from the Roth IRA conversion may have several consequences including (but not limited to) a need for additional tax withholding or estimated tax payments, the loss of certain tax deductions and credits, and higher taxes on Social Security benefits and higher Medicare premiums. Be sure to consult with a qualified tax advisor before making any decisions regarding your IRA. It is generally preferable that you have funds to pay the taxes due upon conversion from funds outside of your IRA. If you elect to take a distribution from your IRA to pay the conversion taxes, please keep mind the potential consequences, such as an assessment of product surrender charges or additional IRS penalties for premature distributions.

Insurance product guarantees are backed by the financial strength and claims-paying ability of the issuing company. We do not offer tax, legal or estate planning advice. Always consult with your own qualified tax/legal advisors

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