VIDEO

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Focus on Funds: New Rules Encourage Long-Term Savers

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The recently passed SECURE Act has provisions to help retirement savers young and old. In the April 24, 2020, edition of *Focus on Funds*, ICI Associate General Counsel Elena Barone Chism highlights important changes affecting 401(k)s and IRAs.

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Transcript

Stephanie Ortbals-Tibbs, ICI director of media relations: A new US law [SECURE Act] has important implications for US retirement and long-term savers. And I'm talking with Elena Barone Chism about some of those changes. Can you break down for us what we can expect, particularly, perhaps, starting with younger investors?

Elena Barone Chism, ICI associate general counsel: Sure. So there are a couple of changes that I want to highlight. And one is a new distribution opportunity from 401(k) plans and IRAs for the birth or adoption of a child. The law adds a new exception to the 10 percent early distribution penalty tax, upon birth or adoption. Now, these withdrawals are limited to $5,000 in the aggregate, and the withdrawal must be made within one year of the event.

Ortbals-Tibbs: That's an exciting development for people who are in those years of having children, and there are a number of changes as well that could help people use their 529 plans differently.

Chism: One new avenue for using your 529 is for expenses related to participation in an apprenticeship program. The other new way to use 529 funds is to take a withdrawal for the purpose of making a student loan repayment—both principal and interest—on behalf of either the account beneficiary or a sibling of the account beneficiary. And these withdrawals are limited to $10,000 over the lifetime of the beneficiary.

Ortbals-Tibbs: There a number of significant changes here for older investors.

Chism: First and foremost is the increase to the age for taking required [minimum] distributions, or RMDs. Now, under the SECURE Act, age 72 is the new trigger age for taking

RMDs.

Ortbals-Tibbs: In general, there are a lot of details to check with these aspects of legislation, so it's going to be important to read the fine print.

Chism: Yes, and there is another important change for folks who are in their seventies or maybe even older. If you're earning income, you can continue to make contributions to a traditional IRA. Previously, that was cut off when you reached age 70½.

If you are a beneficiary of an account owner who dies after 2019, you can no longer stretch distributions from the account over your lifetime unless you fall into a special category of beneficiaries.

Ortbals-Tibbs: And if you're a small-business owner or small-business employee, there are also some changes that could affect your business environment.

Chism: Exactly. The law adds an expanded tax credit for small employers that adopt a qualified retirement plan and also a new tax credit for small employers who automatically enroll workers into the retirement plan. So that is good news for both employers and employees.

Additional Resources

- Statement: SECURE Act Delivers Major Wins for American Savers
- A Q&A with Members of ICI's Retirement Team
- *Focus on Funds*: Retirement Savings Options Set to Expand
- ICI Research Report: Defined Contribution Plan Participants Activities, First Three Quarters of 2019
- ICI's Retirement Resource Center