

SECURE Act

Frequently Asked Questions



What is the SECURE Act

The SECURE Act stands for Setting Every Community Up for Retirement Enhancement Act. The new legislation was signed into law on December 20, 2019 and includes several new and updated provisions related to retirement planning, such as RMDs, IRA contributions and inherited IRAs.

What are the key changes?

Here's a quick look at key changes:

- **RMD age** increased from 70 ½ to 72
- Removes age limit for **Roth and traditional IRA contributions**
- Age for in-service distributions from **pension and 457(b) plans** lowered to 59 ½
- Qualified distributions of up to \$5,000 permitted for **birth/adoption of a child**
- **Inherited IRA** beneficiaries must generally withdraw all assets within 10 years of the original owner's death

How does the Act affect RMD payments?

For anyone who turns 70 ½ on or after January 1, 2020, the age for required minimum distributions increased from age 70 ½ to age 72. For anyone over age 72, payments from an employer plan may still be deferred until retirement.

Will systematic RMD payments continue?

For contract owners turning 70½ on or after January 1, 2020 who had set up to begin ESP payments, we have postponed payments until the year they turn 72. Payments will automatically begin using the same options they selected, such as payment frequency, payment method and tax withholding.

If they wish to still receive a payment for 2020, we will honor the terms of the ESP and waive any early withdrawal charges or market value adjustment. Contract owners who wish to receive a 2020 payment can submit a letter of instruction or make the request over a recorded line. For employer plans, the payment will now be considered an eligible rollover distribution and subject to mandatory 20% federal income tax withholding.

Affected clients received a letter with this information.

Is Great American still accepting inherited IRA business?

Yes. We've made changes to contracts, forms and processes to ensure we can continue accepting non-spousal inherited IRA business.

The SECURE Act generally requires beneficiaries to withdraw qualified assets more quickly.

- Where the original owner dies **on or after January 1, 2020**, beneficiaries will generally have to withdraw all assets from the inherited IRA or other qualified contract within 10 years following the death of the original owner. Previously, they could take distributions over their entire life expectancy.
- Exceptions to the 10-year limit include assets left to a surviving spouse, a minor child, a disabled or chronically ill individual, and beneficiaries who are no more than 10 years younger than the original owner.
- For inherited IRAs and other qualified contracts where the original owner died **on or before December 31, 2019**, there are no changes during the life of the beneficiary, but the 10-year limit will apply after the beneficiary's death.

How are IRA contributions affected?

Beginning with the 2020 tax year, there is no longer an age limit for making contributions to traditional and Roth IRAs.

Contract owners who want to make additional contributions should follow our normal procedures. Purchase payment windows, minimums and maximums continue to apply.

Note: Contributions for the 2019 tax year that are made by April 1, 2020 are not allowed if the owner was age 70 ½ or older during 2019.

How are pension and 457 plans affected?

Pension and 457(b) plans may now permit in-service distributions at age 59 ½. Previously, a pension plan could not allow an in-service distribution before age 62 and a 457(b) plan could not allow an in-service distribution before age 70 ½.

What is the new distribution exception for new parents?

The Act offers flexibility for new parents. Contract owners may withdraw up to \$5,000 of qualified funds upon the birth or adoption of a child without incurring the previous 10% penalty tax imposed by the IRS, and 403(b), 401, and 457(b) plans may allow such distributions without violating the applicable tax law distribution restrictions.

Employer 403(b) plans, 457(b) plans and 401(k) plans may be amended to add an exception to the distribution restrictions to allow such withdrawals

How are annuitizations affected?

The SECURE Act's limits on inherited IRA and other stretch distributions from qualified contracts effectively place a cap on the fixed period component of annuitization options for qualified contracts. The cap is 10 years or the annuitant's life expectancy – whichever is less. Therefore, for clients age 92 and under, the maximum fixed period is 10 years. For ages 93 and above, the fixed period will be lower and based on life expectancy.

This cap applies to the following annuitization options for qualified contracts: fixed period payout, life payout with payments for at least a fixed period and Option D. Previously, the fixed period for qualified contracts was capped at the annuitant's life expectancy, even if it was more than 10 years.

Also, for qualified contracts electing a Joint and survivor option, the option is limited to an owner and spouse, or an owner and individual who is no more than 10 years younger than the owner.