SECURE Act of 2019

IRA Disclosure Supplement

On December 20, 2019, President Trump signed into law the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019. Many of the provisions contained within the SECURE Act are effective January 1, 2020.

Due to the extremely short timeframe between the bill's passage and the January 1, 2020 effective date for some of the bill's key IRA provisions, financial service providers are having to proceed in good faith with minimal guidance from federal regulators. It is anticipated that federal regulators will publish guidance and updated model language soon concerning the changes brought about by the SECURE Act of 2019.

In the interim, this IRA Disclosure Supplement is being provided to notify you of recent changes made by the SECURE Act that, as a result of the above, are not yet reflected in your IRA Plan Agreement and Disclosure Statement. This Disclosure Supplement is intended to provide you with a general, high-level overview of the IRA changes included in the SECURE Act of 2019. Given the complexity of these changes and the near-term lack of federal guidance, we encourage you seek the assistance of a competent tax and/or legal professional if you have questions or concerns about how you may be affected by the SECURE Act of 2019.

Required Minimum Distributions Beginning at Age 72

The SECURE Act of 2019 changes the age at which Traditional, SEP and SIMPLE IRA owners must begin taking required minimum distributions (RMDs).

Individuals Born ***After*** June 30, 1949

Under the SECURE Act of 2019, individuals born after June 30, 1949, must begin taking required minimum distributions at age 72. For these individuals, the deadline for taking the first required distribution is April 1 of the year following the year in which they turn age 72.

Individuals Born ***Before*** July 1, 1949

Individuals born before July 1, 1949, must begin required minimum distributions by no later than April 1 following the year in which they attain age 70½. Accordingly, Traditional, SEP and SIMPLE IRA owners who attained age 70½ during 2019 must take their first required minimum distribution by no later than April 1, 2020.

Traditional IRA Funding—Age 70½ Restriction

The SECURE Act of 2019 eliminates the 70½ age restriction for funding a Traditional IRA.

2020 Tax Year and Beyond

Under the SECURE Act of 2019, the age restriction on funding a Traditional IRA has been eliminated beginning with the 2020 tax year. For 2020 and later years, individuals who have earned income from working may continue to fund their IRA beyond age 70½.

Not Applicable for 2019 Carryback Contributions

While this change takes effect on January 1, 2020, the new rule DOES NOT apply to carryback contributions made for the 2019 tax year (i.e., individuals who are age 70½ or older during 2019 cannot make a Traditional IRA contribution for the 2019 tax year).

Penalty-Free IRA Withdrawals for Certain Births/Adoptions

While taxable IRA withdrawals taken prior to age 59½ are typically subject to the IRS early withdrawal penalty, certain exceptions exist. Beginning January 1, 2020, a new penalty exception allows certain qualifying individuals to withdraw up to $5,000 from an IRA (or other tax-qualified savings plan) before age 59½ in the case of a qualifying birth or qualifying adoption.

<u>Qualified Birth or Adoption Distribution</u>

To be considered a "Qualified Birth or Adoption Distribution", the distribution must be taken during the 1-year period beginning on the date on which a child of the individual is born or on which the legal adoption of an eligible adoptee is finalized.

<u>$5000 Limit</u>

The maximum amount any one individual can claim as a Qualified Birth or Adoption Distribution with respect to one child or one eligible adoptee is $5,000, regardless of the number of IRAs and/or employer-sponsored retirement plans he/she owns.

<u>Eligible Adoptee</u>

Under the new penalty exception, the term "Eligible Adoptee" generally means any individual who has not attained age 18 or is physically or mentally incapable of self-support.

<u>Rollover Option</u>

In addition to claiming an exemption from the 10% early withdrawal penalty, individuals who take a Qualified Birth or Adoption Distribution have the option to recontribute (i.e., roll over) the distribution back into an IRA in the future.

Accelerated Withdrawals for IRA Beneficiaries

Effective for deaths occurring on or after January 1, 2020, the SECURE Act of 2019 changes the withdrawal options for many nonspouse IRA beneficiaries. Under the SECURE Act of 2019, nonspouse beneficiaries of IRA owners who pass away on or after January 1, 2020, must generally withdraw all inherited IRA assets by December 31 of the year containing the tenth anniversary of the IRA owner's death.

<u>Exceptions for Spousal Beneficiaries</u>

The options available to spousal IRA beneficiaries are relatively unchanged under the SECURE Act. Spouse beneficiaries will still typically have the options of treating a decedent's IRA as his or her own or of taking life expectancy distributions from the inherited IRA. In addition, spouse beneficiaries will now have the option—at least in some cases—of withdrawing the proceeds from a decedent's IRA over a 10-year period.

<u>Exceptions for Certain Nonspouse Beneficiaries</u>

While nonspouse beneficiaries of IRA owners who pass away on or after January 1, 2020 must generally

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withdraw all the inherited IRA assets within 10 years, there are exceptions for certain categories of nonspouse beneficiaries:

1. Children
   A minor child beneficiary of the IRA owner who has not yet reached the age of majority at the time of the IRA owner's death is generally eligible to take annual minimum distributions based on his/her own single life expectancy until reaching the age of majority. Once the child reaches the age of majority, such beneficiary will typically be required to withdraw the remaining balance of the inherited IRA within 10 years from when the child reaches the age of majority.

2. Disabled Individuals
   A nonspouse beneficiary who meets certain statutory requirements to qualify as disabled will generally be eligible to take annual minimum distributions over his/her single life expectancy.

3. Chronically Ill Individuals
   A nonspouse beneficiary who meets certain statutory requirements to qualify as chronically ill will generally be eligible to take annual minimum distributions over his/ her single life expectancy.

4. Beneficiaries Not More than 10 Years Younger than IRA Owner
   A nonspouse beneficiary who is not more than 10 years younger than the IRA owner will generally be eligible to take annual minimum distributions based on his/her single life expectancy.

<u>5-Year Withdrawal Period for Some Non-Person Beneficiaries</u>
While the SECURE Act of 2019 requires that most nonspouse beneficiaries withdraw all assets from an inherited IRA within 10 years of the death of the IRA owner, non-person beneficiaries (i.e., estates, charities, etc.), under certain circumstances, must withdraw IRA assets from a deceased IRA owner's IRA within 5 years following the death of an IRA owner.

<u>Special Rules for Trust Beneficiaries</u>
Under the SECURE Act of 2019, the withdrawal requirements applicable in the case of a trust beneficiary vary widely depending on many factors including, but not limited to, whether all underlying beneficiaries of the trust beneficiary are considered "designated beneficiaries" according to statutory requirements and whether any of the underlying beneficiaries of the trust are considered chronically ill or disabled.