

Participant Perspectives

Will the SECURE Act Affect Your Retirement Planning?

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) was signed into law on December 20, 2019. The act will likely impact large numbers of working Americans, as well those already retired. In general, the SECURE Act is intended to increase access to tax-advantaged retirement plans and help prevent older Americans from outliving their assets.

Here are some of the changes that could affect your planning.

Delayed Deadline for Taking Required Minimum Distributions

Tax law has generally required individual retirement account (IRA) owners and retirement plan participants to begin taking required minimum distributions (RMDs) from their accounts once they reach age 70½. The new law pushes back the age at which these distributions must begin to age 72 for IRA owners and plan participants born on or after July 1, 1949. This change allows individuals to take advantage of their retirement account's tax-deferred nature for a longer period.

No Age Limit for Making Traditional IRA Contributions

Beginning with the 2020 tax year, the new law eliminates the 70½ age limit for making annual contributions to traditional IRAs. This is a plus for people who continue to work past age 70½ and want to keep saving for retirement on a tax-deferred basis.

Penalty-Free Birth and Adoption Distributions

The new law also expands the exceptions to the 10% penalty for early withdrawals from IRAs and other tax-deferred retirement plans by adding an exception for "qualified birth

or adoption distributions" up to \$5,000. The new law defines a "qualified" birth or adoption distribution as a withdrawal from an IRA or other eligible retirement plan made during the one-year period beginning on the date the IRA owner's or the plan participant's child is born or the adoptee's adoption is finalized. If desired, parents may replenish their retirement savings by repaying the amount distributed.

Restrictions on Stretch IRAs

The new law places severe restrictions on the use of "stretch" IRAs. A stretch IRA generally permitted beneficiaries to take their RMDs from an inherited IRA over their life expectancy. Thus, beneficiaries were able to stretch payments from the inherited IRA over many years and potentially pass on the inherited IRA to their own beneficiaries.

The SECURE Act changes the RMD rules for beneficiaries of IRA owners (and plan participants) who pass away in 2020 or later. Under the SECURE Act, the use of stretch IRAs is restricted to a limited group of IRA beneficiaries. The specific details on who is eligible to use stretch IRAs is complex, and IRA owners who base their estate plans on the use of a stretch IRA should consult with a financial professional to see how they might be impacted.

Small Business Retirement Plans

Good news if you own a small business—the SECURE Act provides incentives to make it easier for you to establish a retirement plan. Starting in 2020, eligible employers that establish a 401(k) or SIMPLE IRA plan with automatic enrollment may qualify for a new tax credit of \$500 per year for up to three years.

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In addition, the existing credit for small employer plan startup costs has increased to as much as \$5,000 per year for three years. Previously, the annual credit maximum was \$500.

Employers also have more time to establish a qualified retirement plan. Previously, a qualified plan, such as a profit-sharing plan, had to be adopted by the last day of the employer's tax year to be effective for that year. The SECURE Act allows a qualified plan to be adopted as late as the employer's tax filing deadline (plus extensions).

Your financial and tax professionals can provide more details about these and other important SECURE Act changes and how they may affect your retirement planning.

Long-Term Investing 101

Investing for retirement can be intimidating for many people. Keeping these basic principles in mind can help you pursue your long-term goals.

Have Realistic Expectations

Be realistic about how well your investments will perform. If you are too optimistic, you could underestimate how much you should be contributing to your retirement account to reach your savings target. Instead of counting on big stock gains, it's generally smarter in the long run to diversify your investments.* And always contribute an adequate amount, regardless of how the investment markets are performing.

Avoid Hot Trends

Hot investing trends can catch the attention of inexperienced investors. However, trends tend to fizzle out as quickly as they started, leaving inexperienced investors with losses. Rather than chasing trends, choose investments that are an appropriate match for your risk tolerance, the amount of time you have to invest, and your investing objectives.

*Diversification does not ensure a profit or protect against loss in a declining market.

**Past performance does not guarantee future results.

Learn to Live with Volatility

The stock market rises on some days and falls on others—sometimes by a lot. When the market tumbles, you might be tempted to sell your stock funds or portfolios and buy less-risky investments. However, periods of poor market performance are to be expected when you're investing to reach long-term goals. While downturns are discouraging, the stock market historically has recovered from every downturn.** Over time, periodic setbacks may be followed by periods of strong growth. Unless you'll need your money soon, it may be better to look beyond short-term volatility and stick with your investment strategy.

Staying Invested Through Up and Down Years

Investors earned a 6% average annual return from stocks as measured by the S&P 500 stock index over 20 years despite significant market volatility during this time period.

S&P 500: January 1, 2000–December 31, 2019

Highest Average Annual Total Return	32.39%	(2013)
Lowest Average Annual Total Return	-36.99%	(2008)
20-Year Average Annual Return	6.06%	

Source: DST Retirement Solutions, LLC, an SS&C company

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Deciding When to Start Taking a Pension

Most businesses today do not offer a pension plan, but many legacy private sector plans still exist. Pensions are still a common benefit for teachers, federal employees, and others who work in the public sector. In fact, according to the Bureau of Labor Statistics, over 30 million public and private sector American workers participate in a pension plan.¹

For those fortunate enough to have a workplace pension, one of the critical decisions you'll need to make is when to begin collecting. Although payments typically begin at age 65, many plans allow you to start collecting your retirement benefits as early as age 55. But if you decide to start receiving benefits before you reach full retirement age, the size of your monthly payout will be less than it would have been if you'd waited. So the question is: when is the optimal time to start, so that you maximize your total payments?

Unfortunately, there is no simple answer. What works best for you will depend upon a number of factors. Here are some different points you'll want to consider before deciding.

Longevity. The longer you live, the better off you are delaying your pension payments. Although nobody can pinpoint exactly how long they will live, they may be able to make a guesstimate. Today's newborns have an average life expectancy of close to 79 years. A man who reaches age 65 has a life expectancy of about 83; a woman, about 86. Those in good health, with a family history of longevity, stand a good chance of exceeding these figures. What's more, medical advances have helped increase these averages over time. As a result, many people today can look forward to retirements of 30 years or longer.

Specific terms of the pension plan. The terms of a pension vary widely from plan to plan. A typical pension plan's payout depends on years of service, so your timing may depend on when you hit a threshold year. Other factors affect payout, such as whether overtime and bonuses count toward your payout or if benefits are capped at a certain percentage of salary. Many plans also offer cost-of-living adjustments (COLAs). So make sure to check the terms of your specific plan.

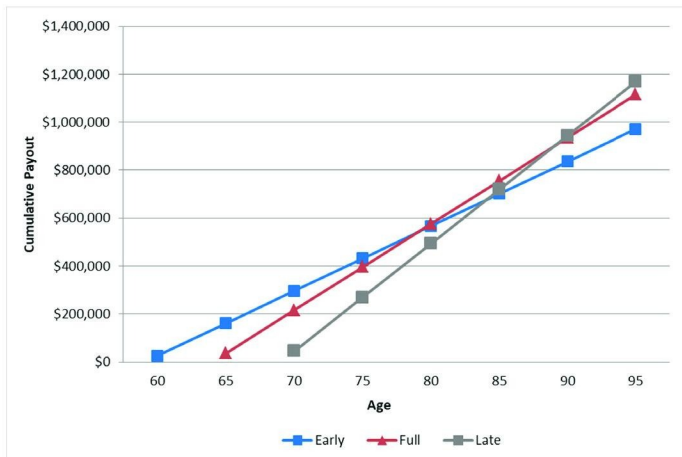
Is the pension safe? Although there are federal and state laws that seek to ensure that a given pension plan meets all its payment obligations, there is no guarantee that that will be the case. Pension plan defaults have been rare, but no pension plan is bulletproof. If a local government entity or private corporation falls on hard times, it could affect pension payouts. It's no secret that many large public plans are underfunded. Some estimates put the collective shortfall in the trillions. Whether such underfunding will eventually reduce benefits in a particular plan is anyone's guess. But the upshot for prospective pensioners is that it may not be wise to pin all your retirement hopes on one pension plan.

Personal circumstances. Everyone has individual needs and financial situations. You may have other sources of retirement income—Social Security, an individual retirement account (IRA), a 401(k) plan, or other retirement savings. You may also plan to cash in on a home or other real estate to help fund your retirement. Or you may have a spouse with their own pension plan. Whatever your circumstances, be sure to factor them into your decision.

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Compare Cumulative Payouts²

The following chart shows the cumulative payments of a hypothetical pension plan, for early (age 60), full (age 65), and late (age 70) start times. It assumes a pension of \$3,000 per month or \$36,000 per year at full retirement age; that payments are fixed, with no COLA increases; and that the pension decreases 5% for each year of early retirement and increases 5% for each year of late retirement (until age 70).



Note where the lines cross. An early start will result in the highest cumulative benefit until you hit age 80. After that point, “full” timing begins to net a higher cumulative payout. And if you opt to wait until age 70, your cumulative benefit won’t outpace a full benefit until you reach age 90.

Keep in mind that this example is for illustration purposes and may differ from your actual experience. Talk with a financial professional who can help you decide when is the best time to start taking your pension payouts.

Source/Disclaimer:

¹Bureau of Labor Statistics, National Compensation Survey for 2018.

²Illustration is hypothetical. Your plan will differ.

Contact Information

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