Registered Investment Advisor Firm

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The SECURE Act

The SECURE (Setting Every Community Up for Retirement Enhancement) Act was signed into law December 2019. It puts into place numerous provisions intended to strengthen retirement security across the country. I will summarize most of the legislation and its impact.

The major components offer small businesses tax incentives to set up automatic enrollment in retirement plans for its workers, or allows them to join multiple employer plans, where they can band together with other companies to offer retirement accounts to their employees in the first place. The law eliminates the maximum age cap for contributions to traditional IRAs and eliminates the rule that lets account beneficiaries stretch distributions across lifetimes.

Below are 5 major changes in the law:

Annuities in 401(k) plans.
The act opens the gates for employers to offer annuities as an investment option within the 401(k) plan. Currently, employers hold the fiduciary responsibility to ensure these products are appropriate for the employee's portfolios, but under the new rules, the onus falls on insurance companies, which sell annuities, to offer proper investment choices.

The upside is annuities provide a guaranteed income over the course of a retiree's lifetime, especially with Americans living longer. Proponents say annuities can offer a steady stream of money to retirees in the long-term, and also encourage savers to think about the far-off future.

The downside is annuities are complex investment products and the wrong choice can be detrimental to a person's portfolio. Employees should also review their options and consult a financial advisor before moving ahead. Annuitization could result in heftier fees and penalties. Critics argue the act was a major win for the insurance industry, which lobbied for the bill.

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Increasing the RMD age – and contribution age.
Previously, qualified account holders such as those with a 401(k) or IRA had to withdraw required minimum distributions (RMD) in the year they turned 70 ½. The act increases that age to 72, which may have tax implications, depending on where the account holders fall in the tax brackets in the year of withdrawal. The 70 ½ age was based on life expectancy in the early 1960s, and had not been updated since.

The bill also eliminates the maximum age for traditional IRA contributions, which was previously capped at 70 ½, as Americans are living longer, an increasing number continue employment beyond traditional retirement age.

Be careful: Americans who turned 70 ½ in 2019 still need to withdraw their RMD in 2019, and failure results in a 50% tax penalty of their RMD. People who are expected to turn 70 ½ in 2020 will not be required to withdraw their RMDs until age 72.

Remember, the first withdrawal for a person turning 70 ½ in 2019 does not need to be made until April 1, 2020, but will need to make the 2020 RMD by December 31, 2020 and every December 31 thereafter.

No more stretch IRAs.
RMDs have changed for non-spousal beneficiaries. Under current law, beneficiaries who did not inherit their accounts from a spouse are allowed to withdraw RMDs over their lifetimes.

The act requires beneficiaries to withdraw all assets of an inherited account within 10 years. There are no RMDs within those 10 years, but the entire balance must be distributed after the 10th year. This change can be problematic for some beneficiaries, especially if they are in their 40s and 50s and their peak earning years.

Multiple Employer Plans (MEP) for small businesses.
The act widens access to MEP for small businesses. Previously, companies may have avoided participating in that type of program because of the so-called one bad apple rule that stated if one employer did not meet the plan requirements, the plan would fail for all others involved.

Under the SECURE act, employers do not need to share a common characteristic, such as being in the same industry. As employers pool together, they enjoy the economy of scale, which is access to more features at affordable prices.

Employer sponsored retirement plans would also be available to long-term part-time workers with a lower minimum number of hours worked. Previously, employers did not have to invite workers who worked less than 1,000 hours every year to participate in a retirement plan. The new legislation drops the threshold for eligibility down to either one full year with 1,000 hours worked or three consecutive years of at least 500 hours.

Encouraging auto-enrollment.

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Another aspect of the SECURE Act is the $500 tax credit for employers that automatically enroll workers into their retirement plans. Auto enrollment is a simple but effective measure to get people saving more for their future. Studies show participants are more likely to stay in a plan than actively enroll in one themselves.

Under the act, small employers will get a tax credit to offset the costs of starting a 401(k) plan or SIMPLE IRA plan with auto-enrollment, on top of the start-up credit they already receive. Auto-enrollment is something the US needs more of. The act provisions will only have a slightly positive impact on workers, but Americans need coverage and to be automatically enrolled in those plans. Some states have already stepped in, creating their own automatic-IRA program, where companies without a retirement plan can – or in some cases, must – provide one for their employees.

If you need help understanding the new SECURE Act or any other financial questions, contact me at (707) 648-2024.

Q: What is the breakdown of the average 401(k) balance by age?
A: According to Fidelity the 2019 breakdown is as follows:
Twentysomethings average balance is $11,800 with a contribution rate of 7%

Thirtysomethings average balance is $42,400 and contribution rate of 7.8%

Fortysomethings average balance is $102,700 and contribution rate is 8.5%

Fiftysomethings average balance is $174,100 and contribution rate is 10.1%

Sixtysomethings average balance is $195,500 and contribution rate is 11.2%.

FED Watch

The FED left its benchmark alone, as expected, at the December meeting. The range is still at 1.5% to 1.75% and signaled that it expects to keep the rates unchanged through 2020. This decision was unanimous, one of the few times in history. In a sign of confidence about the economy, the FED dropped a phrase it had previously used that referred to "uncertainties" surrounding the economic outlook. They also expect the job market to remain strong and the economic outlook remain favorable despite risks of sluggish growth abroad and business investment and exports remaining weak. They are ready to adjust the repo operation if necessary.

There is a 4.4% chance of an increase and 0% chance of lowering at the January meeting.

Next meeting:
January 28th and 29th.

Happy New Year

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. Bob's office is located at

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If you have questions or would like further information on this month's topics or any other financial or investment related subjects, please contact me by phone or through my email address at: bob@crwmadvisors.com

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