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The SECURE Act Changes the Rules about Inheritance of Retirement Accounts: What you need to know now

The Setting Every Community Up for Retirement Enhancement (SECURE) Act is a bipartisan retirement bill that went into effect on January 1, 2020.

The law contains many favorable provisions for retirement account owners, including removing the age limit for IRA contributions (previously limited to 70 ½) and extending the age to begin taking "required minimum distributions" (RMDs) to age 72.

However, the law substantially changes the rules regarding the inheritance of retirement accounts. Most notably, the law eliminates the ability for most beneficiaries who inherit retirement accounts to "stretch" the taxable distributions over their actuarial life expectancies, as was previously allowed. Under the new law, most beneficiaries must withdraw/pay taxes on the entire inherited account over a maximum window of ten years. Certain beneficiaries are exempted from the ten-year distribution requirement: surviving spouses, minor children, disabled or chronically ill beneficiaries, and beneficiaries who are less than ten years younger than the deceased account owner.

Proper estate planning for retirement account owners has never been more important. In some cases, existing beneficiary designations should be examined and changed to avoid undesirable or even dire consequences beyond the increased tax rate. For instance, accounts payable to so-called "conduit trusts" would now result in the account not just being taxed, but also paying outright to the beneficiary, within ten years. For young or otherwise financially vulnerable beneficiaries, this could be an unacceptable outcome.

While the accelerated taxation of the retirement plans on an account owner's death will unavoidably impact most people, the law also presents new planning opportunities, particularly for charitable planning.

For account owners who are charitably inclined, the strategic use of a charitable remainder trust will allow for a longer payout period for beneficiaries, and therefore substantially reduce the overall income tax liability, while at the same time accomplish charitable objectives by benefiting designated charities at the end of the beneficiaries' lives.

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