Client Memorandum

To: Pension Clients

From: Klausner, Kaufman, Jensen & Levinson

Date: 1/15/2020

Re: SECURE ACT and IRS LIMITS for 2020

---

On December 20, President Trump signed into law the curiously named Setting Every Community Up for Retirement Enhancement Act (hereinafter the "Secure Act"). The new law is primarily intended to expand opportunities to increase individual retirement savings. This memo will highlight important amendments governing required minimum required distributions (RMDs), along with relevant amendments removing age restrictions on traditional IRA contributions. This memo will also summarize the updated IRS qualified plan limits for 2020.

*Age 72 Start Date for RMDs*

Of most interest to governmental retirement systems is the Secure Act's new age 72 start date for RMDs. Under prior law, qualified pension plans (including traditional IRAs, 401(k) accounts and SEP-IRAs) were required to start minimum distributions by age 70 ½. Effective 2020, the Secure Act increases the age to begin RMDs from 70½ to 72. Importantly, this new amendment only applies to individuals who reach 70½ *after 2020*. In other words, if an individual turned 70½ before 2020, the prior RMD requirements will still apply.

*Removal of Age Limit for Traditional Ira Contributions*

Consistent with the objective of increasing retirement savings, the Secure Act also removes the age 70½ limit on traditional IRA contributions. Prior to the Secure Act, contributions to a traditional IRA were not allowed after a taxpayer reached age 70½. The Secure Act removes this restriction, effective 2020. This is good news for savers who want to continue to make IRA contributions after reaching age 70½.

*Other provisions*

The Secure Act contains a grab bag of other provisions that are not particularly relevant to governmental plans. For example, the Act attempts to encourage employers with defined contribution plans to allow employees convert their savings into guaranteed lifetime income, through the purchase of annuities. In a way, this objective serves to reinforce the value of reliable, regular income provided by defined benefit plans. The Act also includes a potentially problematic provision that will complicate estate planning using "inherited" IRAs/"stretch" IRAs.[1]

*IRS Notice 2019-59*

Every year the IRS updates the contribution and benefit limits for qualified plans. For 2020, the contribution limit for employees participating in 401(k), 457 and 403(b) plans increases from $19,000 to $19,500. By contrast, the limit on annual IRA contributions remains unchanged at $6,000. Likewise, the additional catch-up contribution limit for individuals aged 50 and over is also unchanged at $1,000.

Additional benefit limits for 2020 are set forth below:

> Effective January 1, 2020, the limitation on the annual benefit under a defined benefit (DB) plan under § 415(b)(1)(A) increases from $225,000 to $230,000.
>
> The annual compensation limit under §§ 401(a)(17), 404(l), 408(k)(3)(C), and408(k)(6)(D)(ii) increases from $280,000 to $285,00
>
> The limitation for defined contribution (DC) plans under § 415(c)(1)(A) increases in 2020 from $56,000 to $57,000.

Here is a link to IRS Notice 2019-59: https://www.irs.gov/pub/irs-drop/n-19-59.pdf

[1] The use of inherited/stretch IRAs is beyond the scope of this memo as it implicates individual tax planning.