The Hanover Advisor

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How the SECURE Act Will Change the Way You Save for Retirement

It is no secret that most Americans are unprepared for retirement. Most retirees cannot maintain their standard of living on just their Social Security benefits alone. Americans know that they will have to supplement these benefits, most often with an employee sponsored retirement plan like a 401(k). Unfortunately data from the Bureau of Labor Statistics shows that only 55 percent of the adult population participate in such plans. Even more worrying is that those who do have retirement accounts are not funding them sufficiently. The financial services firm Vanguard found that in 2019, the average 401(k) balance for those 65 or older was just $58,035.

In an effort to address this retirement crisis, congress passed the Setting Every Community Up for Retirement Enhancement—or SECURE—Act late last year. The bill aims to increase access to retirement accounts and ensure that older Americans' retirement savings will go farther. As the name implies, the act has implications for "every community," from new workers just entering the workforce to those nearing retirement. The plan impacts not just how workers prepare for their own retirement, but how they care for their families as well, whether they are new parents or older Americans setting up an estate plan. Given the far-reaching nature of the law, it is important that you meet with an advisor to ensure that you are taking advantage of the new opportunities the law affords and that any existing plans conform to the new standards. Here are a few of the key elements of the new law.

Retirement Contributions and Distributions

Before the SECURE Act, if you had money in a 401(k) or traditional IRA, you were required to begin taking withdrawals when you reached the age of 70 ½. For those who did not hit 70 ½ by the end of 2019, these required minimum distributions (RMD) do not begin until you reach the age of 72. This means that your IRAs and 401(k)s can continue to grow for a longer time without being depleted by distributions and taxes. This delay in RMDs also give you more time to make any Roth conversions. You can make Roth conversions after RMDs begin, but any withdrawals from a traditional IRA are treated as taxable income. The extended time before RMDs take effect allow you to be more strategic in timing your conversions to reduce your ulti-

mate tax burden.

Not only can your accounts grow longer, but you can continue to contribute to them as well. Before the SECURE Act, you could not contribute to a traditional IRA past the age of 70 ½. Now, you can continue to fund these accounts so long as you have earned income. This means that a married couple in their 70s could save up to $14,000 per year in an IRA, giving them a big tax savings now and growing their retirement savings for the future.

The SECURE Act also make employee sponsored retirement plans more accessible for part-time workers. Workers who put in at least 500 hours per year for three consecutive years are eligible for most plans. This means that those nearing retirement who opt to work part-time can continue to prepare for retirement, and new workers can get a jump start on their saving.

Estate Planning

Most people view their savings as not just a way to fund their retirement, but as a nest egg for their loved ones. The SECURE Act has several important changes in how retirement accounts can be accessed once they are passed on. Under the previous law, the assets in an inherited IRA could be distributed over the course of the beneficiary's lifetime. The new law introduces a "10-year rule," which requires that the assets in an inherited IRA must be distributed within 10 years. There are exceptions for spouses, minor children, the disabled, and people less than 10 years younger than the original holder. This does not affect existing inherited accounts, and only applies to those inherited in 2020 and beyond. One benefit to this is that there are no RMDs during that 10-year period. This gives the beneficiary some flexibility when it comes to timing the distribution of an inherited IRA, allowing them to access the funds at the optimum time for tax purposes.

This also has big implications for trusts. Many trusts are set up so the distributions of the inherited account will to be stretched out over the course of the beneficiary's life. Such trusts are often drafted with language that requires only the RMD be distributed to the beneficiary annually. The elimination of RMDs on inherited accounts and the implementation of the 10-year rule means that it may not be possible for the beneficiary to receive any distributions until the end of the 10-year period, leaving them with a big tax liability.

Childbirth and Education

The SECURE Act has important provisions for parents. Parents can now withdraw up to $5,000 from an IRA or 401(k) to cover the expenses associated with childbirth and adoption. These withdrawals must be made within the first year after the birth/adoption. While no early withdrawal penalties will apply, taxes need to be paid if the contributions were made pre-tax.

Parents who have set up a 529 savings plan should also be aware of the changes to how this money can be used. Under the SECURE Act, 529 plans can now be used to cover the costs of apprenticeship programs. Additionally, beneficiaries of these plans can use up to $10,000 from the plan to repay qualified student loans.

Smart Tax Moves You Can Still Make Before Tax Day

Most of us are organizing our paperwork and lining up meetings with tax professionals in the run up to the April 15 tax deadline. Keep in mind though, that when the ball dropped on December 31, your tax bill was not set in stone. Even in the current calendar year, there are things you can do that can save you thousands. Because everybody's circumstances are different, it is important to work with a tax professional who can take into account your income and deductions, employment type and retirement plans so they can tailor a tax strategy that works best for you. Here, however, a few general strategies you can still implement that can lower your 2020 tax bill.

Maximize Your Retirement Contributions

If you did not fully fund your individual retirement account in 2019, you have until April 15, 2020 to do so. For 2019, the maximum amount you can contribute to an IRA is $6,000 (with an additional $1,000 for those over 50). This means that if you were to set up and fully fund an IRA with $6,000 today, supposing are in the 25% tax bracket, you could save $1,500 on your tax bill this year. Not all IRA contributions are deductible dollar for dollar, and the amount of your tax savings will depend on if you have a workplace retirement plan and your income, but these accounts are a great way to save for retirement and lower your tax burden.

If you are self-employed, you can file for an extension to October 15, 2020. This means you not only have an additional six months to prepare your taxes, but you can make contributions to a Keogh or SEP IRA in that period to lower your tax bill. For 2019, the maximum annual contribution to SEP and Keogh IRAs is $56,000, so they have even more potential to lessen your tax burden.

You may also be considering making a contribution to a Roth IRA. It is important to note that any such contributions are not tax deductible and will not lower your tax bill this year. However, Roth IRAs are a great retirement vehicle because your eventual withdrawals in retirement will be tax-free. When considering tax strategies, it is important to keep the big picture in mind. There are moves you can make now that will lower your yearly tax bill, but may result in a larger tax bill years from now. Balancing your short-term and long-term tax burden is an important component of any financial plan.

Fund a Health Savings Account

Another way to reduce your taxable income is to contribute to a health savings account (HAS). There are eligibility requirements to HSAs, and you'll need a high-deductible insurance plan. If you do qualify for an HSA, they are a great way to not only save up for medical expenses, but lower your tax bill. Also, you have until the upcoming April tax deadline and sill have it count for your 2019 tax bill.

The maximum annual contribution for an HSA is $3,500 for single people, $7,000 for families, and there is an additional $1,000 for those over the age of 55. The benefits of an HSA are threefold. First, contributions made lower your taxable income. Secondly, you can make withdrawals to cover qualified medical expenses tax-free, and lastly, any money you don't use can be rolled into an investment account, giving you tax-deferred growth. Most HSAs are offered at work, but even if your employer does not offer one or you are self-employed, you can easily start one yourself at the bank or other financial institution.

Introducing Hanover's Newest Team Member

Hanover advisors is pleased to welcome Travis Hightower as our new Assistant Portfolio Manager. Travis' primary responsibility will be to aid clients in understanding risk, identifying their personal comfort level regarding volatility, and to quantify their portfolio's expected return. Travis comes to us after graduating from Clemson University, where he earned a B.A. in economics. Travis has always been drawn to the field of investment management because of his interest in economics, markets, geopolitical affairs and history.

Hanover Advisor Bulletins

Special Reminders to all Hanover Clients

- The Hanover Advisors website can be accessed at hanoveradvisorsinc.com. There you will find our latest newsletter and investment commentary, articles, our blog, and videos. You can also learn more about our services, access both the Black Diamond performance reporting system and your Pershing brokerage account(s).

- **New enhancements to our portfolio reporting system**. All Hanover clients have free access to our internet-based reporting system known as Black Diamond. This robust system provides comprehensive performance reporting, asset allocation and risk assessment on clients' portfolios. Our office is available to assist in accessing and utilizing the Black Diamond system.

- As a reminder to our clients that Hanover Advisors, Inc. now has an office in Greenville, SC. Meetings can be scheduled at either the Greenville office or our conference facilities at Concourse Parkway in Atlanta. Please see our website, HanoverAdvisorsInc.com, for detailed contact information.

- We want to invite all clients to contact our office to schedule a portfolio review. We would be happy to coordinate a sit down meeting, a conference call, or an online meeting at your convenience. Please call our office to schedule an appointment.