TRIVETT WEALTH MANAGEMENT

Impact of the SECURE Act on Medical Students, Residents, and Attending Physicians

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On Thursday, December 19, Congress passed the *Setting Every Community Up for Retirement Enhancement* (SECURE) Act.

It is my opinion that the SECURE Act does not carry near the significance as the Tax Cuts and Jobs Act from a couple years ago for taxpayers in general. But there are some meaningful changes that will impact retirement savers. *The purpose of this whitepaper is to examine ONLY the parts of the bill that I see having the greatest impact on those in the medical community, as well as those soon to enter the medical community.* Other areas of the SECURE Act will be ignored in this writing.

Here is how I see the SECURE Act affecting you:

1. Use of 529 in Paying Down Your Student Loans

   I'm afraid this may be a tad of a letdown for many doctors burdened by student loans. Rumors were flying around for quite some time that the SECURE Act was going to provide for the use of tax-free 529 funds. Well, that sort of came true.

   The SECURE Act introduced "Qualified Education Loan Repayments" as a qualified higher education expense. Such distributions may be used to pay the principal and/or interest of qualified education loans but are **limited to a lifetime amount of $10,000**. Also, any plan funds used to pay the interest on qualified student debt will render that interest paid ineligible for the above-the-line deduction for student loan interest.

   The $10,000 lifetime limit is a per-person figure. However, **an additional $10,000 can be distributed to each of the beneficiary's siblings as a qualified education loan repayment to satisfy their outstanding student debt**.

So yes, you can now (the change is effective retroactive to the beginning of 2019) use a 529 to pay down your student loans. But with many physicians nowadays carrying upwards of $500,000 in loans, I don't see the $10,000 limit moving the needle very far.

2. Taxable Non-Tuition Fellowship and Stipend Payments Treated as Compensation for IRA Purposes

   I have seen situations where a student wants to contribute to an IRA. However, unless their spouse has earned income this can be problematic since you must have *earned* income before contributing to an IRA. Under the SECURE Act, beginning in 2020, **individuals who have taxable stipends or other amounts paid to them to aid in the pursuit of a graduate level or postdoctoral study can use those amounts as compensation for IRA/Roth contribution purposes**.

3. New 10-year 'Stretch' Rule for Inherited Retirement Funds

   This is probably the most publicized component of the SECURE Act. Under this rule, **if you are a non-spousal beneficiary of a defined contribution plan (401k, profit-sharing, etc.) or IRA, the entire account must be emptied by the end of the 10th year** following the year of the inheritance. Under current law there are more flexible options for non-spousal beneficiaries, but they are going bye bye.

   As with the previous stretch provision, there are exceptions to the 10-year rule such as, chronically ill beneficiaries, certain minor children until they reach age of majority, etc.

4. Required Minimum Distributions (RMDs)

   I realize that most people reading this are under the age of 60, BUT this is a change to a long-held staple of retirement planning. Currently, you must begin taking money out of most retirement plans when you turn age 70 ½. However, under the SECURE Act **the onset of RMDs has been changed to age 72**.

5. New Exception to the 10% Penalty for Childbirth and Adoption

   Many of my physician clients have adopted children or are considering adopting. The SECURE Act introduces a new exception to the 10% early distribution penalty. The new exception allows for **up to $5,000 to be distributed penalty-free from an IRA or from a plan as a "Qualified Birth or Adoption Distribution**."

There are a host of other provisions contained in the SECURE Act, but I wanted to quickly hit on the high points most relevant to those in the medical profession. Please contact our office if you would like to discuss anything mentioned in this whitepaper. As always, please consult your tax advisor before making any tax decisions.

Sincerely,

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