THE SECURE ACT IS LAW

By Wayne Chopus
President & CEO
Insured Retirement Institute

On December 20, 2019, President Trump signed the “Setting Every Community Up for Retirement Enhancement” (SECURE) Act into law. This new law has wide-ranging positive implications for the insured retirement industry. It has been years in the making and is filled with common-sense measures to strengthen retirement security for millions more American workers by providing them with ways to expand their opportunities to save during their working years, and their income prospects during their retirement years.

The SECURE Act eroded quit a lot of shoe leather walking the halls of congressional office buildings over the past several years, leading to the enactment of the most comprehensive retirement legislation in over a decade. It is a great way for insured retirement industry to commence a new decade, however much more still needs to be done to enhance and strengthen America’s retirement security.

To accomplish the goal of enacting the SECURE Act, IRI worked with its member companies...
and a coalition of thirty-one other interested organizations, including many financial services and insurance industry trade organizations. IRI played a leadership role in organizing and participating in 551 meetings with Members of Congress and conducted a grassroots campaign that resulted in more than 7,100 letters sent to Congress. IRI also responded to numerous requests for comments from both the national and trade press throughout the campaign including the Wall Street Journal, CNBC and the PBS Nightly Business Report. IRI also conducted a radio media tour promoting the passage of the SECURE Act, which reached more than 200 stations and 1.3 million listeners.

WHY WAS THE SECURE ACT NEEDED?

In the United States today, we have about 54.6 million Americans who are over the age of 65, and that is projected to grow to about 71.4 million by 2030. That means that every day between now and the year 2030, 10,000 people will reach age 65 and many of these retirees will live 20-30 years or longer in retirement, increasing the risk they may outlive retirement assets. This is important for our nation because research by the Pew Charitable Trusts has shown that 69 percent of Americans are not satisfied with their current personal financial condition.

WHAT WILL THE SECURE ACT DO?

The SECURE Act will make it easier for employers to provide both their full- and part-time employees with the opportunity to save for their retirement years through a workplace plan. Currently in the United States, 28 million full-time employees and 15 million part-time employees do not have access to a workplace retirement plan because 4.8 million employers do not offer their employees a plan though which they can build retirement nest eggs.

The SECURE Act will expand and preserve opportunities to save for retirement by allowing more small businesses to join and pool their resources to offer their employees retirement benefits. It is projected to create about 700,000 new retirement accounts nationwide.

The SECURE Act will also offer workers enhanced plan features like automatic enrollment and automatic escalation of a percentage of their salaries allocated to a plan offered by their employer. Experience has demonstrated that workers across all income brackets are statistically more likely to participate when their plans have auto enrollment, but the current percentage thresholds allowed under existing law are not enough to allow employees to reach their retirement savings goals. Research also has shown that where a workplace retirement plan is offered to employees only a little more than half participate. By enhancing the current features of plans, as the SECURE Act does, more opportunities will be created for Americans to save more for their retirement years.

The SECURE Act will provide new information to more Americans struggling to save for their retirement – information which can help them increase their retirement savings. It will require a lifetime income illustration on everyone’s annual plan benefit statement, which will help to allow for more informed decisions to be made about retirement finances. This is important because 54% of Americans have never tried to figure out how much they will need to save and live on when they retire. Research conducted by IRI found that more than 90% of workers want these retirement income illustrations and would find them helpful. More importantly, more than 75% of those workers said they would increase their savings levels after seeing this information provided on their annual benefit statements.

The SECURE Act will also increase access to lifetime income products in workplace plans, which will help address the increased risk people are facing of outliving the assets they have accumulated for their retirement. It will also clarify existing rules to make it easier for employers to offer guaranteed lifetime income products as part of their workplace plans, make annuities portable, increase the age at which required minimum distributions must be taken, and repeal the age limit for individual retirement account contributions.

In addition to important measures which will help Americans save for their retirement, the SECURE Act will help more than 500,000 volunteer first responders – firefighters and EMS workers nationwide who put their lives on the line each and every day to protect and serve our communities – from being taxed on incentives they may receive from the communities they serve in these potentially life threatening jobs. It will also help 18,000 Gold Star families who are being denied an adjustment to an excessive tax rate on their survivor benefits for their children, and 1,400 religiously affiliated organizations nationwide which are at risk of not having access to their defined contribution plans. The SECURE Act will prevent
more than 430,000 workers nationwide from losing retirement benefits as of the beginning of 2020 because their pension plans will not pass nondiscrimination tests required under current law. And finally, the SECURE Act ensures that pension plans that passed nondiscrimination testing at the time they were discontinued will have workable ways to continue to satisfy the tests and protect participants.

WHAT’S NEXT?

Now that the SECURE Act has been enacted, IRI is shifting its focus from advocating for the SECURE Act to helping IRI members prepare for its implementation. Significant changes must be made to existing policies and procedures, as well as administrative, operational, and technological systems, in order to comply with the new rules established by the SECURE Act. The effective date for most sections of the SECURE Act was December 31, 2019 and while this date would have been workable when the House of Representatives initially voted in favor of the bill in May 2019, it provided only 12 days from the date of enactment (including Christmas, a federal holiday) for the industry to achieve full compliance.

Although industry immediately began efforts upon the new law’s enactment to work in good faith to develop and execute the necessary changes, and are committed to achieving full compliance, it will not be possible to do so in such a short time frame for a few of the provisions of the new law. For this reason, on December 30, 2019 IRI sent a letter to the Secretary of the Treasury and the IRS Commissioner requesting guidance and relief from certain provisions of the SECURE Act that are impossible to comply with by December 31, 2019.

IRI recently published its 2020 Federal Retirement Security Blueprint. The Blueprint contains policy proposals focused on helping Americans achieve their retirement goals. The Blueprint serves as a guide for IRI’s dialogue with policymakers about the importance of providing sustainable strategies to address the challenges Americans face as they seek to save for and achieve a secure and dignified retirement. It is constructed on the pillars of expanding opportunities to save, increasing access to lifetime income in retirement, helping savers make decisions about their finances for retirement, and increasing consumer protections to safeguard against financial exploitation and abuse.

With many of the 2019 Blueprint proposals adopted in the SECURE Act, IRI is focusing the 2020 Blueprint on new proposals to strengthen retirement security for Americans. The Blueprint includes measures contained in legislation that has been proposed by Senators Rob Portman (R-OH) and Ben Cardin (D-MD) in the Retirement Savings and Security Act and Representative Richard Neal (D-MA) in the Retirement Plan Simplification and Enhancement Act and Automatic Retirement Plan Act. This year will be a busy one indeed as we set to work moving these bold and necessary proposals across the finish line.

IRI FAST FACTS

Expectations/Actions/Attitudes

- Only 55 percent of millennials are confident that Social Security will provide them with meaningful retirement income.
- Despite this, more than seven in 10 millennials believe they will be able to fully retire, either at the age they want to (42%) or at some point, even if not at their desired retirement age (30%). Only 16% believe they won’t be able to retire due to a lack of financial security.
- Eight in 10 millennials have money saved for retirement, but nearly half have saved less than $10,000.
- Sixty-five percent of millennials believe they will generate meaningful retirement income from savings in a retirement plan, but 50 percent are not currently contributing to a plan.
- More than four in 10 millennials are delaying saving for retirement so they can accomplish another financial goal, such as paying off debt or buying a home.
- Eight in 10 millennials would invest in an investment option that provides guaranteed lifetime income.

1 Millennials & Retirement 2020 (IRI, January 2020)
With a new year and new decade underway, chances are those who made New Year’s resolutions in January have long since given up. Often these failed attempts include living a healthier lifestyle, whether it be more exercise or a new diet. But equally, if not more important, is considering financial health and well-being, adopting good habits and strategies that set clients up for a lifetime of long-term success, versus short-term attempts.

So how can you help clients commit to a more financially predictable future? While there’s no crystal ball on what 2020 will bring, there are tried but true ways you can help your clients secure a sounder financial future – in this year and in the decade to come.

1. EMBRACE UNCERTAINTY WITH A PLAN

It’s been said that the only known is the unknown. 2020 is shaping up to be quite an unpredictable year, and it’s something your clients are thinking about. In fact, research from Lincoln Financial Group shows 76% of investors feel the upcoming presidential election will affect the market1.

By John Kennedy
Head of Retirement Solutions Distribution, Lincoln Financial Distributors
Politics aside, many also feel we’re due for a market correction. With interest rates at all-time lows and the current bull market nearly 11 years in, there’s just no telling how long the current environment will last.

Working with your clients to create a plan that can help protect their finances and retirement income can help them feel less concerned and more empowered during uncertain times. Ask them what keeps them up at night and makes them feel uncertain. Are taxes top of mind? How about market movement impacting their retirement plans? Find out where the uncertainty lies, and embrace it directly. Work with your clients to create a short and long-term game plan.

2. PROTECT THEIR INCOME

Lincoln’s research shows that eighty-two percent of pre-retirees are rightfully concerned about what will happen to their investments if the market drops. For this reason, advisors can help clients diversify their portfolios to include an annuity in their retirement income plan. An annuity with optional income benefits for an additional cost, can provide a source of lifetime income protected from market losses, and helps clients create a retirement budget – all of which can make for a less stressful retirement.

Your clients worked hard while saving for retirement. Now they look to you to help them protect what they’ve saved and secure protected lifetime income in retirement. In fact, assuring a comfortable standard of living in retirement is ranked the most important financial goal by affluent investors.

And today, there are more solutions available in the market than ever before. Help clients find an income strategy that fits their needs – whether it be protecting their savings, capturing market growth, or even leaving a legacy down the road.

3. BUILD A LASTING AND LONG-TERM RELATIONSHIP

As an advisor, you are in a unique position to establish trust with clients. You can help them evaluate their financial situation holistically to identify and gaps or unmet retirement income needs.

BUILD TRUST BY ASKING CLIENT-CENTERED QUESTIONS

Instead of focusing on your agenda, make the conversation about the client. Ask about their family, lifestyle, and what matters to them. Shifting the focus will help you develop stronger relationships and enable you to uncover more about your clients to help meet their income needs in retirement.

SAMPLE QUESTIONS:

? "How are your grandkids, Tommy and Jessica?"
? "How was your trip to Greece?"
? "Are you still working on your golf game?"
? "How do you think Penn State will do this year?"
? "What’s the next big family event on the horizon this year?"

View these relationships as lasting, and long-term. Help them build a financial plan for 2020, but also for the next 30 years. Point out when they’re on track or when they need to rebalance or recalibrate. Answer their tough questions and suggest smart strategies to help them build more certainty to their financial plan. And, when you’re thinking long-term, don’t forget about the kids. A strong advisor/client relationship can also mean working with multiple generations within a family to help clients achieve their financial goals – both in this new decade and for decades to come.

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INVESTMENTS AND ANNUITIES: A PARTNERSHIP TO SOLVE THE RETIREMENT INCOME CHALLENGE

By Robert Chamerda
Director, Individual Solutions Group Market Intelligence, Prudential Financial

With the recent passage of the SECURE Act, Congress has sent a clear message to consumers and financial professionals alike—holistic financial planning needs to look beyond retirement savings and include strategies to turn that money into income in retirement. In response to this message, numerous investment firms as well as robo-advisors have implemented or revamped their retirement income programs.

This focus for investment firms on income is not surprising as by 2026 nearly $32 trillion will be available for creating retirement income and a surprisingly large percentage of firms’ existing digital advice clients are over age 50.¹ Many financial professionals have heard the statistic that 10,000 baby boomers are turning 65 every day, but by 2022 that number will be 11,000 and in 2050 12,000 millennials will turn 65 each day. Today there are 50.5 million retirees, by 2045 that number will be 84 million.²

ADDRESSING THE INCOME CHALLENGE

While insurers have been providing retirement income solutions to clients for years, in the form of annuities, these revamped programs from investment firms and robo-advisors take a different approach. The majority of these programs focus on generating income based on what is considered a “safe withdrawal rate”—that is, a drawdown of retirement savings across taxable accounts, IRAs and Roth accounts designed to last throughout clients’ retirement years. Many programs take advantage of cutting-edge technologies to factor in tax-loss harvesting, automatic rebalancing and present information through digital dashboards with a 24/7 ability to speak with a licensed advisor and ongoing monitoring of progress towards financial goals—as well as alerts if it looks like the client’s goal may not be met and the withdrawal rate should be changed.

While some of these programs mention annuities as an income option, most do not have a formal element to include annuities as part of the program. Importantly, that means that while these programs based on a safe withdrawal rate may be successful in providing lifetime income, they don’t provide the guarantees of an annuity. Annuities come in many versions including fixed, variable, income immediately or beginning at some future date, but what every annuity offers—what makes an annuity an annuity—is the ability to guarantee lifetime income (for a single life or two spouses).

ANALYZING THE OPTIONS

Looking at programs offered by some of the largest investment firms, a $500,000 investment with a 30 year time horizon provides a monthly withdrawal range of anywhere between $1,830 and $2,083 per month with a significant likelihood of lasting a client’s lifetime.³ The precise monthly withdrawal rate depends on the aggressiveness of the investment allocation—more aggressive allocations allow for a higher monthly withdrawal but come with greater risk. By comparison, a Single Premium Immediate Annuity (SPIA) with a refund certain option purchased at age 65, would pay $2,150 a month for a female, $2,236 a month for a male and $2,025 a month for a husband and wife, both age 65 no matter

"People underestimate their life expectancy so they may plan for a time horizon they will likely outlive."
INSURERS AND INVESTMENT FIRMS – FORGING A PARTNERSHIP

How can an insurance company (and the industry as a whole) provide higher retirement cash flow than a spend-down strategy—even for a couple, and no matter how long someone lives? The secret lies in insurers’ ability to spread risk across a wide population of buyers—what is called mortality pooling. In a large annuitized group, some percentage of payees is statistically assumed to die earlier, creating a “mortality credit” that contributes to the annuity payment amount of those still alive. A spend-down strategy does not have this pooling. Each person’s experience, and success or failure, is independent, autonomous and unique.

As the retirement income message resonates among regulators and permeates the consumer landscape, it makes sense for investment firms and insurance companies to partner to maximize customer satisfaction and optimize results by harnessing each other’s key strengths. Investment firms can continue to gather and grow assets, even in retirement, but partnering with an insurance company to guarantee lifetime income to cover at least the basic expenses of retirees will help deliver a more secure, enjoyable and less-stressful retirement.

There are two general ways for investment firms and insurers to partner:

1. Use an annuity to provide guaranteed income to cover basic expenses (basic expenses can extend beyond food and shelter to include anything that is non-negotiable during retirement like travel, charitable contributions, etc.) throughout retirement while remaining assets stay invested.

2. Spend down investment firm held assets and position an annuity to begin payments at some future date as a form of longevity insurance.

Whatever strategy is employed, investment firms and insurers will need to coordinate to ensure the partnership looks and feels seamless to the client. While there is work to do to build this seamless integration, a partnership that leverages both investment firms and insurer’s unique strengths will benefit both industries, and most importantly, provide retired Americans a more secure and optimal retirement.

2 Ibid.
3 Schwab Intelligent Income (assumes 30-year time frame) and BlackRock iRetire (inputing purchase at age 65) used as reference.
4 The midpoint of SPIA payment rates of approximately 15 top SPIA carriers, CANNEX, 1/13/2020.

how long they live. There are other guaranteed lifetime annuity income options such as guaranteed lifetime withdrawal benefits (GLWBs) that can be added as a rider to variable, fixed and fixed indexed annuities (for an added cost), but for the sake of simplicity we will focus on the SPIA option.

While investment firms do a wonderful job helping people invest and save, and do so inexpensively, any withdrawal/spend-down strategy without an annuity will be suboptimal as it does not contain a guaranteed income for life component. No one knows when they are going to die, and people underestimate their life expectancy so they may plan for a time horizon they will likely outlive. While the average life expectancy for an American baby born in 2017 is 78.6 years old, this figure can obscure the fact that life expectancy for those who have reached age 65 continues to increase:

One in four 65-year-old men of average health will live to age 93

One in four 65-year-old women will live to age 96.

For married couples, there is an almost even chance (50%) that one partner will live to celebrate a 93rd birthday, and a one-in-four chance that one or both will reach age 98.

There is a 14% chance that one partner will celebrate his or her 100th birthday.

A spend-down strategy simply does not protect against this risk for an individual or married couple—an annuity does.

Another risk annuities can protect against is sequence of returns risk. Using the example above, if that initial $500,000 investment saw a 25% decline in value due to a recession like the markets saw in 2008 it would be reduced to $375,000. The safe withdrawal amount would then need to be reduced proportionally—leaving it at the early $1,830 or $1,930 per month payment would greatly increase the chance of that nest egg going to zero. With an annuity, the withdrawal amount doesn’t change even if there is a market correction (with a GLWB, assumes that no excess withdrawals are taken). Annuities protect against sequence of returns risk in a way a spend-down strategy can’t.
RETIREMENT PLANNING BY THE NUMBERS 2020

■ SOCIAL SECURITY ■

1.6%  
Cost of living adjustment (COLA) for Social Security benefits.

$1,503  
Estimated average Social Security monthly benefit for a retired worker payable in January 2020, up from $1,461 in January 2019.

$3,011  
Maximum Social Security monthly benefit in 2020 for a worker retiring at full retirement age, up from $2,861 in 2019.

■ MEDICARE ■

$4,020  
Medicare Part D initial coverage limit (standard benefit plan).

$6,350  
Medicare Part D out-of-pocket maximum (standard benefit plan).

$198  
Medicare Part B annual deductible. After the annual deductible, enrollees typically pay 20% of the Medicare-approved amount for most doctor services (including most doctor services while a hospital inpatient), outpatient therapy, and durable medical equipment.

$137.67  
Minimum Medicare Part B premium for current enrollees paying premiums through deduction from Social Security, up 1.6% from 2019 due to the “hold harmless” provision of Social Security. New enrollees, enrollees not receiving Social Security benefits and/or whose Medicare premiums are paid by Medicaid, and enrollees with individual income above $87,000 or joint income above $174,000 will pay increased premiums. See the table below for more information.

■ MEDICARE PART B PREMIUMS 2020 ■

<table>
<thead>
<tr>
<th>MODIFIED ADJUSTED GROSS INCOME (MAGI) IN 2018</th>
<th>2020 MEDICARE PART B PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filing individually</td>
<td>Filing jointly</td>
</tr>
<tr>
<td>$87,000 or less</td>
<td>$174,000 or less</td>
</tr>
<tr>
<td>Greater than $87,000 up to $109,000</td>
<td>Greater than $174,000 up to $218,000</td>
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<tr>
<td>Greater than $109,000 up to $136,000</td>
<td>Greater than $218,000 up to $272,000</td>
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<tr>
<td>Greater than $136,000 up to $163,000</td>
<td>Greater than $272,000 up to $326,000</td>
</tr>
<tr>
<td>Greater than $163,000 and less than $500,000</td>
<td>Greater than $326,000 and less than $750,000</td>
</tr>
<tr>
<td>$500,000 or more</td>
<td>$750,000 or more</td>
</tr>
</tbody>
</table>

1 The standard premium is lower for those at or below the income thresholds who had premiums paid directly from Social Security benefits for at least two months in 2019.
The Social Security Administration, the Internal Revenue Service (IRS), and other government agencies recently announced changes and other key retirement planning figures that will impact retirees and retirement savers in 2020.

### SOCIAL SECURITY AND MEDICARE TAXES

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security payroll tax.</td>
<td>6.20%</td>
<td>$137,700</td>
</tr>
<tr>
<td>Social Security payroll tax for self-employed individuals.</td>
<td>12.4%</td>
<td>$137,700</td>
</tr>
<tr>
<td>Medicare payroll tax.</td>
<td>1.45%</td>
<td>$137,700</td>
</tr>
<tr>
<td>Medicare payroll tax for self-employed individuals.</td>
<td>2.9%</td>
<td>$137,700</td>
</tr>
<tr>
<td>Taxable wage base for Social Security payroll tax.</td>
<td>0.9%</td>
<td>$137,700</td>
</tr>
</tbody>
</table>
| Taxable wage base for Medicare payroll tax.                       | 3.8%       | As part of the Affordable Care Act, Medicare surtax on investment income – including dividends, interest, and capital gains – that applies to higher income taxpayers: Single - $200,000; Married filing jointly - $250,000; Married filing separately - $125,000. The thresholds are statutory and not inflation adjusted.

### RETIREMENT SAVINGS AND INCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum IRA contribution limit, unchanged from 2019.</td>
<td>$6,000</td>
</tr>
<tr>
<td>Maximum IRA contribution limit for those aged 50 and older, unchanged from 2019.</td>
<td>$7,000</td>
</tr>
<tr>
<td>Maximum elective deferral to a 401(k) plan, up from $19,000 in 2019.</td>
<td>$19,500</td>
</tr>
<tr>
<td>Maximum elective deferral to a 401(k) for those aged 50 and older, up from $25,000 in 2019.</td>
<td>$26,000</td>
</tr>
<tr>
<td>Annual “all sources” limit on additions to a 401(k) plan (including employee elective deferrals and all employer contributions), up from $56,000 in 2019.</td>
<td>$57,000</td>
</tr>
<tr>
<td>Annual “all sources” limit on additions to a 401(k) plan (including employee elective deferrals and all employer contributions) or those aged 50 and older, up from $62,000 in 2019.</td>
<td>$63,500</td>
</tr>
<tr>
<td>Maximum elective deferral for a SIMPLE 401(k) plan for those aged 50 and older, up from $16,000 in 2019.</td>
<td>$16,500</td>
</tr>
<tr>
<td>Maximum contribution to a non-qualified annuity (no limit imposed by the government, insurance companies may impose limits).</td>
<td>UNLIMITED</td>
</tr>
<tr>
<td>Maximum annual payout from a defined benefit plan, up from $225,000 in 2019.</td>
<td>$230,000</td>
</tr>
<tr>
<td>Dollar limitation on premiums paid with respect to a qualifying longevity annuity contract (QLAC), increased to $135,000, up from $130,000 in 2019.</td>
<td>$135,000</td>
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</tbody>
</table>
Insured Retirement Institute is launching a new conference structure for 2020 which brings together the communities comprising the retirement income industry — insurers, distributors, asset managers and solution providers — for one annual meeting.

Who should attend?

- Sales
- Communications
- Legal
- Product Development
- Operations and Technology
- Advocacy
- Marketing
- Compliance
- Public Policy

Will we see you there?

Registration is now open at IRIConference.com.