401k changes

Summary

Changes Include Annuities, Age Cap

The retirement bill the House passed on Thursday includes an assortment of changes for participants in 401(k) plans and owners of individual retirement accounts. The Senate may be poised to pass the bill, or a similar one, quickly and send it to President Trump, who is expected to sign it. Here's what you can expect:

IF YOU'RE INTERESTED IN ANNUITIES

It'll become easier to convert your retirement savings into a steady lifetime income—a feature common to old-fashioned pensions—by buying an annuity in a 401(k)-style retirement plan. Currently, only 9% of employers offer this option, according to Vanguard Group. Employers would be able to choose whether to offer an annuity and, if so, which type to offer.

IF YOU'RE OVER 70½

The bill repeals the age cap for contributing to a traditional IRA, currently 70½, making it easier for people with taxable compensation to continue saving. Also, the age to start taking required taxable withdrawals from 401(k)s and IRAs would increase to 72 from 70½.

IF YOU PARTICIPATE IN A 401(K) PLAN

The legislation would also make it easier for employees to understand how much monthly income their 401(k) balance would support by requiring employers to disclose an estimate on 401(k) statements.

IF YOU WORK PART TIME

Good news: The bill requires 401(k)-style retirement plans to allow long-tenured part-time employees working more than 500 hours a year to participate.

IF YOU'RE A NEW PARENT

The bill would allow you to take penalty-free distributions from 401(K)s and IRAs of up to $5,000 within a year of the birth or adoption of a child to cover associated expenses.

IF YOU INHERIT AN IRA

You would no longer be able to liquidate the balance over your lifetime and stretch out tax payments. Instead, if you inherit tax-advantaged retirement accounts after Dec. 31, 2019, you must withdraw the money within a decade of the IRA owner's death and pay any taxes due. Exceptions include surviving spouses and minor children.

IF YOU HAVE A 529 SAVINGS PLAN

You'd be able to withdraw as much as $10,000 from a 529 education-savings plan for repayments of some student loans.

IF YOUR EMPLOYER DOESN'T OFFER A RETIREMENT PLAN

An estimated 42% of private-sector workers don't have access to a workplace retirement-savings plan. Under the bill, employers without retirement plans would have the option to band together to offer a 401(k)-type plan if they choose.

stretch out tax payments, a technique known as the "Stretch IRA." This change is expected to generate $16 billion in additional revenue for the government over the next decade, according to the congressional Joint Committee on Taxation.

The bill also allows employers without an affiliation to band together to offer a 401(k)-type plan—an effort to encourage companies without retirement plans to offer them. Under such arrangements, companies can shift some of the administrative burden and fiduciary responsibility for a retirement plan to a plan administrator. That expands a current rule that allows such multiemployer plans but only when employers have an affiliation.

Consumer advocates have raised concerns about some of the annuity provisions.

While the legislation would protect employers from liability if they select an insurer licensed by the state in which the company is domiciled, Barbara Roper, director of investor protection at the nonprofit Consumer Federation of Amer-

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POLITICS

House Passes Bill Making Big Changes to U.S. Retirement System

Age cap for contributing to IRAs is repealed, among other shifts; legislation would move to Senate

Both House and Senate versions allow employers without an affiliation to band together to offer a 401(k)-type plan.
PHOTO: MANDEL NGAN/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Anne Tergesen and Richard Rubin
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Americans could see the most significant changes in more than a decade to their retirement plans under legislation the House of Representatives passed Thursday, with measures designed to make it easier for employers to offer 401(k)-type accounts and for participants to convert their balances into a steady lifetime income.

Lawmakers have been discussing many of the retirement changes for years, with a significant portion of the U.S.'s burgeoning community of retirees at risk of outliving

their money. As life expectancy rises, policy makers and employers are realizing that 401(k) plans, the benchmark retirement vehicle offered by America's employers for decades, could do more to help retirees make that money last.

The House bill, passed by an overwhelming House majority and expected to be taken up by the Senate before it heads to President Trump's desk, would encourage 401(k)-type plans to offer annuities, a type of insurance contract that guarantees a monthly income stream as long as a retiree lives. It also would repeal the age cap for contributing to traditional individual retirement accounts, currently 70½, and would increase the age at which savers must start taking withdrawals from 401(k)s and IRAs to 72 from 70½. Additional features benefit part-time workers, parents, home-care workers and employees at small businesses.

Joe DeBello, a financial adviser in Orlando, Fla., who consults businesses on retirement plans, said his clients are excited about the lifetime-income provision of the bill. While 401(k)s are good for accumulating money to live on during retirement, he said, when people retire they don't always have much guidance about spending and run the risk of outliving their savings.

[What does the House retirement bill mean for you?]

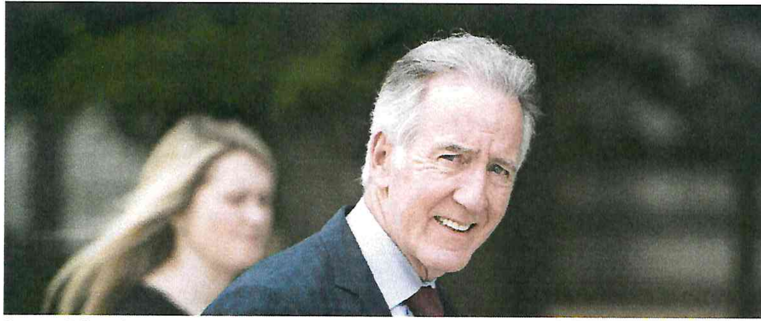
"More employers will take a harder look at adding annuities," he said. "It's a good thing."

Though commonly offered by traditional pension plans, annuities aren't often used in 401(k) plans, in part because employers worry that if they pick an insurance company that ends up going bust, the 401(k) participants will sue the employer. The new measure would give certain employers some protection from future liability if they choose an insurance company to administer the payments and that insurer later fails to pay claims.

The House bill, known as the Setting Every Community Up for Retirement Enhancement, or Secure Act, passed with a vote of 417-3. Senators have signaled they are keen to quickly take up the legislation, and Mr. Trump isn't expected to oppose it.

If passed, the changes would be the most significant to retirement plans since 2006, when Congress made it easier for employers to enroll workers automatically in 401(k)-type plans and invest their money in funds that shift from stocks to bonds as people age.

Under current law, people who save money in 401(k)s or similar tax-deferred plans must begin withdrawing money—and paying tax on it—at age 70½, with annual



Rep. Richard Neal (D., Mass.), chairman of the House Ways and Means Committee, is one of the backers of the House's Secure Act. **PHOTO:** BILL CLARK/CQ ROLL CALL/NEWSCOM/ZUMA PRESS

amounts set by actuarial tables. These required distributions and associated income taxes can be a source of frustration for taxpayers who are still working or are trying to make their savings last for 30 years of retirement.

Ed Slott, an IRA consultant in Rockville Centre, N.Y., said having to remember to start taking withdrawals at 70½ is "an unnecessary complexity that's been in the law for decades." He added: "I wish they went further. I would have liked to see them get rid of required distributions altogether," adding that when taxpayers miscalculate the required distribution, "it's a huge penalty on the amount they didn't take."

David Taylor, a 61-year-old attorney in Boca Raton, Fla., who plans to retire after turning 62 in August, said he hopes that between a pension and a 401(k) account, he will "have enough money" to retire comfortably. "But it's nice to know that I can put the required distributions off for a couple of years. It would be good, especially if I don't need the money at that point. All of our life spans are increasing."

By helping participants convert their balances into a steady lifetime income, annuities enable employers to incorporate a feature of an old-fashioned pension plan into a 401(k) that ensures participants won't outlive their money. The bill would also allow workers whose employers stop offering annuities to transfer those contracts to an IRA and continue making contributions.

The legislation includes other features. Employers would need to disclose to employees on 401(k) statements the amount of sustainable monthly income their balance could support—a feature aimed at helping savers better understand how much spending their savings will support throughout retirement so they can better plan for retirement.

For parents, the legislation allows withdrawals of as much as $10,000 from 529 education-savings plans for repayments of some student loans. In addition, parents could take penalty-free distributions from retirement accounts of as much as $5,000 within a year of the birth or adoption of a child to cover expenses.

A provision requiring employers to allow long-term part-time workers to participate in 401(k) plans is a significant step in increasing coverage, Mr. DeBello said. He said the current law disproportionately affects women, who tend to carry the burden of child and elder care and who may not be able to participate in 401(k) plans if they work part-time.

Amy Hubble, an adviser at Radix Financial LLC in Oklahoma City, was less positive on the legislation. She said the bill does "little to help middle-class families with the rising burden of saving for retirement or student loans. Nothing in it provides any significant relief or incentive and appears to just be an excuse to allow insurers better access to the $5 trillion U.S. 401(k) plan market. We deserve better."

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To help pay for the changes, the House legislation would require many people who inherit tax-advantaged retirement accounts after the end of this year to withdraw the money over a shorter time frame than many are currently allowed—specifically, they would have to drain the accounts within a decade and pay any taxes due. The bill exempts some beneficiaries, including surviving spouses and minor children.

Currently, beneficiaries can often liquidate those accounts over their own lifetimes and stretch out tax payments, a technique known as the "Stretch IRA." This change is expected to generate $16 billion in additional revenue for the government over the next decade, according to the congressional Joint Committee on Taxation.

The bill also allows employers without an affiliation to band together to offer a 401(k)-type plan—an effort to encourage companies without retirement plans to offer them. Under such arrangements, companies can shift some of the administrative burden and fiduciary responsibility for a retirement plan to a plan administrator. That expands a current rule that allows such multi-employer plans but only when employers have an affiliation.

Consumer advocates have raised concerns about some of the annuity provisions.

While the legislation would protect employers from liability if they select an insurer licensed by the state in which the company is domiciled, Barbara Roper, director of investor protection at the nonprofit Consumer Federation of America, said Congress should also require employers to consider insurers' financial-strength ratings and make it clear that the employer has legal liability for negotiating the annuity's price

and other terms.

Mark Iwry, who oversaw national retirement policy in the Treasury Department during the Clinton and Obama administrations, said he expects employers to gradually embrace annuities.

While some employers "have a serious interest in providing annuity options to their workforce," he said, a larger number will initially "do nothing." But over time, he predicts, the legislation will encourage more to add annuities on either a standalone basis or within funds that serve as default 401(k) investments.

Congress may take up other retirement-related proposals later this year. One bill, proposed recently by Sens. Rob Portman (R., Ohio) and Ben Cardin (D., Md.), would give employers incentives to double the standard minimum default contribution rate under automatic enrollment to 6%. It would also permit employers to make matching contributions to the 401(k) accounts of employees paying off student loans who don't contribute enough to the 401(k) plan to receive a full match.

The bill that passed Thursday also repeals a 2017 change to the so-called Kiddie Tax that often boosts tax rates on "unearned" income received by children in low- and middle-income families and was causing surprise tax increases for many. The measure allows affected taxpayers, including thousands of families of deceased active-duty service members, to retroactively elect not to pay the tax. It would also benefit survivors of first responders, children who receive certain tribal payments and college students receiving scholarships.

The inclusion of the Kiddie Tax changes helped accelerate the retirement bill through Congress, because lawmakers were eager to resolve a problem for military families before Memorial Day.

SHARE YOUR THOUGHTS

How will raising the required age to begin withdrawals from IRAs and 401(k)s affect you? Join the conversation below.

—Julia Carpenter and Lisa Beilfuss contributed to this article

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