CFP BOARD

CFP BOARD KEY ELEMENTS SECURE ACT 2019

IMPACT | CONSIDERATIONS | LEARNING OBJECTIVES
FOR THE JULY 2020 CFP® CERTIFICATION EXAMINATION

CERTIFIED FINANCIAL PLANNER BOARD OF STANDARDS, INC.
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The goal of this publication is to highlight key elements of the SECURE Act 2019 that will impact the CFP Board exam. The document addresses changes that result from the new legislation.

- The document is not an all-inclusive list.
- Currently, only items 1, 3, 5, & 6 of this document will be tested on the July 2020 CFP® Exam.

CFP Board Exam Content

- The CFP® exam tests the ability to apply and integrate knowledge of financial planning.
- Questions may focus on discrete content areas or may require application, integration, synthesis, or evaluation of knowledge across several principal topic areas.
- Despite the diverse work environments and compensation models of CFP® professionals, the financial planning process is the same. Volunteer subject matter experts write CFP® questions from a generalist's perspective. The exam avoids overrepresentation of perspectives from any particular specialty.

Document Development

- CFP Board held a meeting of diverse subject matter experts to review and evaluate literature related to the SECURE Act.
- CFP Board conducted research to gather opinions from multiple groups on key elements of the SECURE Act 2019 bill.
- The research plan required several rounds of expert review to allow for a convergence of opinions.
- CFP Board used the data collected from the expert reviews to validate the key elements contained in this document.

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1 MAXIMUM AGE FOR TRADITIONAL IRA CONTRIBUTIONS REPEALED

F.47 TAX REDUCTION/MANAGEMENT TECHNIQUES

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G.61 RETIREMENT INCOME AND DISTRIBUTION STRATEGIES

Change:

- **Individuals are able to contribute to a traditional IRA beyond the age of 70½.**

Impact:

- Workers older than 70½ are able to manage their tax liability by reducing income with qualifying deductible IRA contributions.

Considerations:

- Compare the advantage of a deductible IRA versus a Roth IRA contribution.
- Individuals are still required to withdraw required minimum distributions.
- Some workers may be able to increase pre-tax savings.
- The ability to continue to make pre-tax savings may lead to more income-taxable assets that may have to be distributed over a shorter time to beneficiaries.

Learning Objectives:

- Understand the impact of continuing contributions to IRA accounts beyond age 70½.
- Evaluate the impact of choosing a Roth IRA vs. a deductible IRA depending on legacy and charitable goals and recommend the action that best meets these goals.
- Analyze whether pre-tax vs. after-tax savings late in a client's life is a good idea from the standpoint of tax diversification and estate considerations.

2 PORTABILITY OF LIFETIME INCOME OPTIONS

G.52 RETIREMENT NEEDS ANALYSIS

G.56 QUALIFIED PLAN RULES AND OPTIONS

G.61 RETIREMENT INCOME AND DISTRIBUTION STRATEGIES

More legislative or administrative clarification is required before this will be tested on the CFP® Exam.

Change:

- **The portability of annuity investments increases by letting employees who take another job or retire move their annuity to another 401(k) plan or to an IRA without surrender charges and fees.**
- **The SECURE Act adds a Safe Harbor provision for plan fiduciaries to select and provide an in-plan annuity.**

Impact:

- Annuity adoption within qualified plans could increase dramatically.

Considerations:

- Financial planners, employers, and plan sponsors will need to educate participants regarding the appropriate fit for annuities as a solution to the client's long-range goals.
- Planners need to consider holistic and fiduciary due diligence to evaluate a client's needs in regard to "*one-size-fits-all annuity*" prescriptions.
- Annuity contract language, fees, and provisions may require a thorough review to evaluate the annuity's pros and cons.

Learning Objectives:

- Determine the priority of guaranteed income versus access to liquidity with fluctuating needs in retirement.
- Evaluate legacy goals.
- Evaluate the benefits of rolling over lifetime income benefits vs. leaving them with prior employer.

3 REQUIRED MINIMUM DISTRIBUTION AGE INCREASED FROM 70½ TO 72

G.60 DISTRIBUTION RULES AND TAXATION

G.61 RETIREMENT INCOME AND DISTRIBUTION STRATEGIES

H.64 STRATEGIES TO TRANSFER PROPERTY

Change:

- **Required minimum distributions (RMDs) will be delayed until age 72 for participants in 401(k) and other defined-contribution plans, defined-benefit pension plans, and for individual retirement account (IRA) holders.**

Impact:

- The extra time allows for additional tax deferral and efficiency in distribution planning.

Considerations:

- Revisit retirement income and withdrawal strategy recommendations.
- Financial planners should verify that their financial planning software or homegrown formulae reflect the new provision.
- The change only impacts individuals born on or after July 1, 1949, who will turn 70½ in 2020 or later.

Learning Objectives:

- Evaluate distribution strategies to achieve goals.

4 DISCLOSURE REGARDING LIFETIME INCOME

G.58 REGULATORY CONSIDERATIONS

G.61 RETIREMENT INCOME AND DISTRIBUTION STRATEGIES

More legislative or administrative clarification is required before this will be tested on the CFP® Exam.

Change:

- **The legislation requires benefit statements provided to defined contribution plan participants to include a lifetime income disclosure at least once during any 12-month period.**

Impact:

- The disclosure model illustrations will impact retirement income discussions. Since most discussions include a determination of retirement income, the illustrations will provide additional data points.

Considerations:

- A well-designed model disclosure could help inform the financial planning client with respect to the time value of money of their retirement investment, and this disclosure could help drive the conversation to set reasonable goals to retirement age and spending.
- Financial planners should review the assumptions included in the lifetime income disclosure to understand the actuarial or mathematical basis for the income model.

Learning Objectives:

- Examine the impact the disclosure models will have on investor behavior.

5 EXPANSION OF 529 EDUCATION SAVINGS ACCOUNT

C.18 EDUCATION SAVINGS VEHICLES

C.21 EDUCATION FINANCING

Change:

- **Section 529 education savings accounts are expanded to cover costs associated with registered apprenticeships; homeschooling; up to $10,000 of qualified student loan repayments (including those for siblings); and private elementary, secondary, or religious schools.**

Impact:

- The expanded use for 529 plans will result in additional interest in these accounts.

Considerations:

- Financial planners should evaluate models for time horizons, distribution patterns, and recommended asset allocations for any previously constructed plans.
- The use of 529 plan funds for up to $10,000 per beneficiary per lifetime of qualified student loan repayments/debt extends the time horizon for investments enabling planners to recommend the use of more aggressive investments inside 529 accounts.
- If there is a sudden downturn in the market toward the end of schooling, account holders may be able to delay distribution rather than realizing a loss.

Learning Objectives:

- Evaluate how the new 529 plan features will be helpful to families facing educational costs.
- Recommend the most flexible and tax efficient way to save for education.

6 MODIFIED REQUIRED MINIMUM DISTRIBUTION RULES

F.47 TAX REDUCTION/MANAGEMENT TECHNIQUES

F.48 TAX CONSEQUENCES OF PROPERTY TRANSACTIONS

G.60 DISTRIBUTION RULES AND TAXATION

G.61 RETIREMENT INCOME AND DISTRIBUTION STRATEGIES

H.64 STRATEGIES TO TRANSFER PROPERTY

H.68 TYPES, FEATURES AND TAXATION OF TRUSTS

Change:

- **The provision eliminates the stretch IRA distribution option for many new decedents. All new inherited IRAs are subject to a 10-year maximum distribution calendar, subject to eligible designated beneficiary exceptions.**

Impact:

- Accelerated distributions may produce higher effective tax rates when compared with previous stretch provisions for beneficiaries.

Consideration:

- Financial planners should understand the common exceptions, such as for surviving spouses, eligible minor children, people with disabilities or chronic illness, and people less than 10 years younger than the decedent.
- The value of the accounts and the tax rates of the beneficiaries will impact the optimal distribution strategy.
- For estate/legacy planning and wealth transfer purposes, Roth IRA contributions and conversions may now be more favorable.
- Review trusts as beneficiaries of retirement assets. Previously established structures may be unnecessary or detrimental for transferring wealth.

Learning Objectives:

- Understand the impact this provision will have on beneficiary IRA planning.