



PENALTY-FREE IRA DISTRIBUTIONS FOR BIRTHS/ADOPTIONS

UNDER THE
SECURE ACT OF 2019



In December of 2019, Congress passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, making key changes to the rules governing IRAs including the creation of a new penalty-free withdrawal option for qualifying births and adoptions. This brochure provides an overview of this change to help you determine whether this new option is something from which you might be able to benefit.

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What's Changed?

Generally, taxable IRA withdrawals taken before age 59½ are subject to a 10% early withdrawal penalty. Under the SECURE Act, effective January 1, 2020, individuals who meet the requirement to take a “Qualified Birth or Adoption Distribution” are eligible to withdraw up to \$5,000 from their IRAs or workplace savings program—without penalty—to help cover the costs associated with a qualifying birth or adoption.

What is a Qualified Birth or Adoption Distribution?

To be eligible as a Qualified Birth or Adoption Distribution, the distribution must typically be taken within one year of when a child is born, or the legalized adoption of an eligible adoptee is finalized. An “Eligible Adoptee” is defined under the SECURE Act as any adoptee who is a child under the age of 18 (other than a child of the IRA owner’s spouse) as well as an adult adoptee who is incapable of self-support.

How Does the \$5,000 Limit Work?

The \$5,000 limit on Qualified Birth or Adoption Distributions applies on a per taxpayer and per birth/adoption basis. In other words, both parents of a newborn child or eligible adoptee could potentially withdraw up to \$5,000 from their respective tax-sheltered savings as a Qualified Birth or Adoption Distribution. Neither, however, could withdraw more than \$5,000 as a Qualified Birth or Adoption Distribution with regards to the same child or adoptee, regardless of whether the distributions were all taken in one tax year or spread out over two tax years. Because the \$5,000 limit applies on a per child/adoptee basis, the birth or adoption of a second child opens the door to another potential \$5,000 Qualified Birth or Adoption Distribution per taxpayer.

Option to Repay Funds in Future

In addition to waiving the 10% early withdrawal penalty on Qualified Birth or Adoption Distributions, the SECURE Act provides that such distributions can be repaid to an IRA in the future, providing even greater financial flexibility to new parents.

Conclusion

Tax-sheltered savings such as IRAs form a crucial component of retirement security. As such, the general rule of thumb is that you should avoid early withdrawals from retirement savings whenever possible. In some situations, however, the present financial need outweighs concerns about future financial consideration. Thanks to the SECURE Act, parents looking forward to the birth or adoption of a child or dependent, now have some additional flexibility.