

SECURE Provides New Option to Help Pay for Birth or Adoption

By: John Kirk on January 13, 2020 on graydon.law

As we continue our review of the SECURE Act, we turn our attention to a new optional provision that is designed to help defray the costs of adoption and child-birth. This new distribution option was created when the SECURE Act expanded the list of items excluded from the additional income tax on early distributions contained in IRC Section 72(t).

Under the new rule, a plan participant may take a distribution from his or her retirement plan of up to \$5,000 as a penalty-free early withdrawal to help cover expenses related to the adoption or birth of a child (each parent may take advantage of this distribution option).

The distribution must be made during the one-year period following the birth or adoption and, for an adoption, the child must be under the age of 18 or physically or mentally incapable of self-support. Additionally, the distribution may be paid back to the plan but is not required to be repaid. This new distribution rule is effective for distributions after December 31, 2019.

In order to take advantage of this new penalty-free distribution option, plan sponsors will need to amend their plan documents, notify their plan administrators, and amend their related notices and related policies. In practice, the addition of this new option to a plan should be relatively easy as most plan administrators are aware of the new rule and the procedures will be very similar to currently existing penalty-free distributions.