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The Secure Act Requires Your 401(k) Statement to Show Monthly Retirement Income. You Could Be in for a Surprise.

By Nick Fortuna Feb. 17, 2020 7:00 am ET

Photograph by Mark Wilson/Getty Images

Translating the nebulous balance on a 401(k) statement into an estimated monthly income in retirement can be challenging, leaving workers unsure whether they're on the right track or need to step up their contributions.

A small provision in the Secure Act , signed into law in December to help Americans save for retirement, aims to remove some of that uncertainty. The law requires employers offering 401(k) and similar plans to show employees not just the total balance in their account but also a projected monthly income in retirement based on that balance.

That monthly figure could be either alarming or reassuring to workers, says Dan Keady, chief financial planning strategist for New York-based TIAA. "I think this is so important because it can convert people from thinking about creating a nest egg or 'the number' to thinking about replacing their paycheck," Keady says.

The Labor Department is expected to issue guidelines this year for how plan sponsors should calculate projected monthly income, taking into account factors such as long-term contribution rates, investment performance and overall market growth. Keady said the Secure Act calls for plan sponsors to provide an estimate of how much each employee would have in retirement if he converted his entire 401(k) balance into a single-life annuity or a joint-life annuity that includes a spouse of the same age.

For younger workers, the accuracy of the projections is a question mark, but they are useful in gauging whether workers are on the right path, says Howard Hook, a certified financial planner and accountant with EKS Associates in Princeton, N.J.

number," he says. "It's important to look at that and know that it's an estimate and not a guarantee."

Here are two other small but significant changes from the Secure Act:

• **Penalty-free withdrawals for childbirth, adoption expenses**: A parent may withdraw up to $5,000 from his retirement-savings account within a year of a child's birth or adoption without paying the 10% penalty for distributions before age 59½.

Each parent, if they have separate retirement accounts, may withdraw up to $5,000 penalty-free for each childbirth or adoption.

Such distributions are subject to tax. Workers may choose to repay the withdrawals to their retirement accounts later.

Though this provision will be helpful to some, workers should avoid this type of withdrawal if possible, says Michael K. Macke, vice president and principal advisor at Jacksonville, Fla.-based Petros Estate & Retirement Planning.

"I don't think, in general, it's a good idea to be withdrawing from your retirement plan, even if you're not paying the penalty," he says. "You're still going to pay tax on it, and you miss out on the opportunity to grow and compound those dollars. … But you can't control life's situations, and some people might find themselves in circumstances where this may be the last option."

• **Paying for apprenticeships, student loans:** The Secure Act broadens the definition of qualified higher-education expenses, allowing owners of 529 education-savings accounts to use that money to pay for the cost of apprenticeship programs and to pay back student loans.

Tax-advantaged 529 plans help parents, grandparents and others save for children's college expenses and private K-12 education. Families invest after-tax dollars and can withdraw money tax-free to pay for qualified education expenses. However, with nonqualified distributions, the earnings portion is subject to tax and a 10% penalty.

Hook said including apprenticeship programs among the qualified education expenses should help more young people afford the career training they need.

"If I'm doing an apprenticeship and there's a fair amount of cost associated with that, why shouldn't I be able to take a tax-free distribution from my 529 plan?" Hook said. "It's no different than if I was going to college, right? So, that's a good thing."

The Secure Act also allows owners of 529 accounts to withdraw up to $10,000 per child without penalty to pay down student loans. So, a parent with four children, each carrying $10,000 in student debt, may withdraw up to $40,000 tax-free.

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