Details of the SECURE Act: Plan Loans Via Credit Cards

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In late December of 2019 President Trump signed into law a budget bill to fund the government for the remainder of the fiscal year. Included as an addition to the bill was the SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019). Some of the changes within the SECURE ACT impacted loans from 401(k) plans, specifically prohibiting the distribution of plan loans through debit cards or similar arrangements. This change is intended to ensure that plan loans are not used for routine or small purchases, thereby preserving retirement savings.

Section 108 of the Act amends the tax laws to prohibit the use of debit/credit cards to take a participation loan.

Prior to the SECURE ACT, some plan administrators allowed participants to attach a debit/credit card to their 401(k) account. Each time the participant used that particular card it was considered a loan against their vested retirement account balance. There was concern that participants will view this as a bank account and diminish their retirement savings by making small everyday purchases.

Effective for tax years beginning after December 31, 2019, the SECURE ACT removed that option for plans. Any loans taken through debit/credit cards will now be considered taxable income not a loan. Also, this may cause qualification issues if distributions do not follow the plan document. For example, the participant may not be eligible for an in service distribution which would cause the plan to be out of compliance. Plans that have allowed this in the past need to remove this option and encourage participants to view their accounts as retirement savings.