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SECURE ACT 2.0
FEDERAL LEGISLATION THAT CHANGES CERTAIN RETIREMENT CONTRIBUTIONS, DISTRIBUTIONS AND PLANS

The legislation enacted in the SECURE Act 2.0 provides a slate of changes that could help strengthen the retirement system—and Americans' financial readiness for retirement.

The law builds on earlier legislation that increased the age at which retirees must take required minimum distributions (RMDs) and allowed workplace saving plans to offer annuities, capping years of discussions aimed at bolstering retirement savings through employer plans and IRAs.

While SECURE 2.0 contains dozens of provisions, the highlights include increasing the age at which retirees must begin taking RMDs from IRA and 401(k) accounts, and changes to the size of catch-up contributions for older workers with workplace plans. Additional changes are meant to help younger people continue saving while paying off student debt, to make it easier to move accounts from employer to employer, and to enable people to save for emergencies within retirement accounts.

Here are 9 things SECURE 2.0 changes:

For people in or near retirement

1. Big changes to RMDs.

- The age at which owners of retirement accounts must start taking RMDs increased to 73, starting January 1, 2023. The current age to begin taking RMDs is 72, so individuals will have an additional year to delay taking a mandatory withdrawal of deferred savings from their retirement accounts. Two important things to think about: If you turned 72 in 2022 or earlier, you will need to continue taking RMDs as scheduled. If you're turning 72 in 2023 and have already scheduled your withdrawal, you may want to consider updating your withdrawal plan. Good to know: SECURE 2.0 also pushes the age at which RMDs must start to 75 starting in 2033.

- Starting in 2023, the steep penalty for failing to take an RMD decreased to 25% of the RMD amount not taken, from 50% currently. The penalty will be reduced to 10% for IRA owners if the account owner withdraws the RMD amount previously not taken and submits a corrected tax return in a timely manner.

- Additionally, Roth accounts in employer retirement plans will be exempt from the RMD requirements starting in 2024.

- And beginning immediately, for in-plan annuity payments that exceed the participant's RMD amount, the excess annuity payment can be applied to the year's RMD.

2. Higher catch-up contributions. Starting January 1, 2025, individuals ages 60 through 63 years old will be able to make catch-up contributions up to $10,000 annually to a workplace plan, and that amount will be indexed to inflation. (The catch-up amount for people age 50 and older in 2023 is currently $7,500.)

Starting in 2026, if you earn more than $145,000 in the prior calendar year, all catch-up contributions to a workplace plan at age 50 or older will need to be made to a Roth account in after-tax dollars. Individuals earning $145,000 or less, adjusted for inflation going forward, will be exempt from the Roth requirement.

IRAs currently have a $1,000 catch-up contribution limit for people age 50 and over. Starting in 2024, that limit will be indexed to inflation, meaning it could increase every year, based on federally determined cost-of-living increases.

3. Matching for Roth accounts. Employers will be able to provide employees the option of receiving vested matching contributions to Roth accounts (although it may take time for plan providers to offer this and for payroll systems to be updated). Previously, matching in employer-sponsored plans was made on a pre-tax basis. Contributions to a Roth retirement plan are made after-tax, after which earnings can grow tax-free.

Important to know: Unlike Roth IRAs, RMDs from an employer-sponsored plan are required for Roth accounts until tax year 2024.

4. Qualified charitable distributions (QCDs). Beginning in 2023, people who are age 70½ and older may elect as part of their $100,000 annual QCD limit a one-time gift up to $50,000, adjusted annually for inflation, to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity. This is an expansion of the type of charity, or charities, that can receive a QCD. This amount counts toward the annual RMD, if applicable. Note, for gifts to count, they must come directly from your IRA by the end of the calendar year. QCDs cannot be made to all charities.

5. Other changes for annuities. Qualified longevity annuity contracts (QLACs) are getting a boost. QLACs are deferred income annuities purchased with retirement funds typically held in an IRA or 401(k) that begin payments on or before age 85. The dollar limitation for premiums increased to $200,000 from $145,000 as of January 1, 2023. The law also eliminates a previous requirement that limited premiums to 25% of an individual’s retirement account balance.

For people years away from retirement

6. Automatic enrollment and automatic plan portability. The legislation requires businesses adopting new 401(k) and 403(b) plans to automatically enroll eligible employees, starting at a contribution rate of at least 3%, starting in 2025. It also permits retirement plan service providers to offer plan sponsors automatic portability services, transferring an employee's low balance retirement accounts to a new plan when they change jobs. The change could be especially useful for lower-balance savers who typically cash out their retirement plans when they leave jobs, rather than continue saving in another eligible retirement plan.

7. Emergency savings. Defined contribution retirement plans would be able to add an emergency savings account that is a designated Roth account eligible to accept participant contributions for non-highly compensated employees starting in 2024. Contributions would be limited to $2,500 annually (or lower, as set by the employer) and the first 4 withdrawals in a year would be tax- and penalty-free. Depending on plan rules, contributions may be eligible for an employer match. In addition to giving participants penalty-free access to funds, an emergency savings fund could encourage plan participants to save for short-term and unexpected expenses.

8. Student loan debt. Starting in 2024, employers will be able to "match" employee student loan payments with matching payments to a retirement account, giving workers an extra incentive to save while paying off educational loans.

9. 529 Plans. After 15 years, 529 plan assets can be rolled over to a Roth IRA for the beneficiary, subject to annual Roth contribution limits and an aggregate lifetime limit of $35,000. Rollovers cannot exceed the aggregate before the 5-year period ending on the date of the distribution. The rollover is treated as a contribution towards the annual Roth IRA contribution limit.

As always, consult Rusk & Company to understand how SECURE 2.0 changes apply to your tax situation.