GARDECAPITAL

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What to Know about Secure Act 2.0

Late last year, Congress passed the "Secure Act 2.0." This legislation – which is now law – is one of the most significant changes to retirement plan rules in over a decade. It contains dozens of new and updated rules. The primary goal of this legislation is to allow employees to save more for retirement through both their qualified (work-based) and individual retirement accounts.

Below, we have outlined the most important changes you should know about as you think about saving for retirement and begin withdrawing from your accounts when the time comes.

You can read the bill for yourself here: https://www.congress.gov/bill/117th-congress/house-bill/2954/text.

RMD Age Changed to 73 and Eventually 75

Until this change, Required Minimum Distributions (RMDs) were required to begin in the year in which you turn 72. Beginning on January 1, 2023, that starting age has now been pushed back to 73. In ten years (2033), the minimum age at which you will need to begin taking RMDs will jump to age 75.

Note that there has been no applicable change to the qualified charitable distribution age, which remains 70.5.

Reduced Penalties for Not Taking an RMD

Previously, if you failed to take your RMD, you were subject to a 50% excise tax on the shortfall of the distribution, one of the heaviest penalties in the U.S. tax code. Beginning immediately, the penalty is now reduced to 10% if you take the RMD by the end of the second year after it was due, or 25% thereafter.

As an example, if you did not complete your RMD for calendar year 2022, the excise tax will be only 10% if you complete the RMD by December 31, 2024. If you complete the RMD in 2025, the penalty increases to 25%.

New Roth Savings Options

Beginning immediately, if you are eligible to set up a SEP-IRA or SIMPLE IRA, you will have the option to contribute to these accounts on an after-tax basis through a SEP Roth IRA or a SIMPLE Roth IRA.

Additionally, Roth matching contributions to employee qualified plans will now be allowed. Previously, all company matching had to be made on a pre-tax basis.

RMDs from Qualified Plans are Discontinued

Beginning in 2024, you will no longer need to take an RMD from a qualified Roth plan (Roth 401(k), Roth 403(b), Roth 457, Roth Federal Thrift Savings Program, and so on).

If you have a qualified retirement plan that requires you to take an RMD this year (2023), you will still need to complete the RMD or roll the account over to a Roth IRA, which has no RMD requirements during your lifetime.

New Tax-Free Rollover from 529 Plans to Roth IRAs

Beginning in 2024, those who have education savings in a 529 plan are allowed to roll over some of the unused money in the plan into Roth IRA for which they are the beneficiary. There are significant restrictions, however, including a $35,000 lifetime rollover limit, an annual rollover limit that will match the Roth IRA contribution limit for that year (currently $6,500 annually), the 529 will need to have been open for 15 years, and the beneficiary needs to be employed. If you follow these guidelines, rollovers from a college student's 529 to a Roth IRA for which they are the beneficiary will be penalty-free and tax-free.

This change to the law further enhances the attractiveness of setting up a 529 account for your child, as it gives more options if you overfund the account, if your child decides they do not need the money, or they are awarded a scholarship.

Changes to Qualified Charitable Distribution Rules

Beginning in 2023, you will have a one-time opportunity (over the course of your lifetime) to use your qualified charitable distribution (QCD) to fund a "split-interest entity" (Charitable Remainder Unitrust, Charitable Remainder Annuity Trust, or Charitable Gift Annuity, which have the colorful abbreviations CRUT, CRAT, and CGA). The maximum lifetime limit is $50,000 per person, which will be indexed each year for inflation. There are other mitigating factors and limitations into using your QCD to fund a split interest entity, so check with your wealth manager before pursuing this.

And beginning in 2024, the annual limit for a qualified charitable distribution (QCD) will be indexed to inflation. This cap was previously $100,000 (fixed) per person per year if you are above age 70.5. Beginning in 2024, the amount will grow with inflation.

Increased Catch-Up Contributions (With a Small Catch)

Beginning in 2024, IRA catch-up contributions (currently $1,000 per person) will automatically adjust upwards with inflation in $100 increments. Updating this number previously required Congress to pass new legislation.

For 401(k) account holders, catch-up contributions are further increased. Beginning in 2025, if you are aged between 60, 61, 62, or 63, your catch-up contribution increases to $10,000 or 50% more than your current catch-up amount (whichever is greater).

But there is an important caveat: beginning in 2024, if you earned more than $145,000 in wages from your employer in the previous tax year, all of your catch-up contributions must be made to Roth 401(k)s, not Traditional (Pretax) 401(k)s.

Some Plan Participants Will Be Automatically Enrolled

Beginning in 2025, employers who start new qualified retirement plans (such as 401(k)s and 403(b)s) will need to automatically enroll their employees/participants. The initial enrollment amount will be at least three percent, but not more than ten percent of the employee's pay. Each year thereafter, the amount is increased by one percent, until it reaches at least 10 percent but not more than 15 percent. There are numerous exemptions to this rule, however, including church plans, government plans, SIMPLE plans, and employers with ten (10) or fewer employees.

As with any auto enrollment plan, the participant will always have the ability to opt out and choose their own savings strategy.

Changes to Student Loan Payments and Plan Deferrals

Beginning in 2024, student loan payments can count as retirement contributions for the purpose of qualifying for matching contributions in a workplace retirement account. This means your employer can make contributions to your retirement plan on your behalf while you pay off student loan debt instead of saving for retirement.

New Emergency Savings Plan Introduced

You will be able to withdraw up to $1,000 per year from your retirement savings account for emergency expenses without having to pay the 10% tax penalty for early withdrawal if you are under age 59.5.

Additionally, employers can allow employees to set up an emergency savings account through automatic payroll deductions. These contributions are limited to $2,500.

If you have questions about how this legislation affects your financial plan, please reach out to your wealth manager. More importantly, it is always advisable to connect with your CPA or other tax professional before making decisions that may impact your taxes.

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