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RETIREMENT SERVICES

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What the 2024 Election Means for Retirement Plans

TAKEAWAYS

Tax Policy

- **Expiration:** The Tax Cut and Jobs Act of 2017 (TCJA) is set to expire at the end of 2025 absent Congressional action, thus we expect extensions to be at the top of President Trump's to do list.
- **Rates:** The TCJA retained the seven-bracket structure for individuals, lowering the individual tax rates to 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Unless extended, the individual tax rates will revert to the pre-TCJA rate structure of 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.
- **Deductions/Credits:** The TCJA nearly doubled the standard deduction and expanded the child tax credit by doubling the maximum to $2,000 and extending the phaseout range. The TCJA also set the personal exemption to $0, essentially swapping exemptions for a larger standard deduction and child tax credit. In 2026, absent an extension, personal exemptions would return at $5,300, the standard deduction would shrink to $8,350 for single filers, $16,700 for joint filers, and $12,250 for head of household filers, compared to $15,450, $30,850, and $23,150 if the TCJA instead continued. The maximum child tax credit would revert to $1,000 from $2,000 under TCJA and begin phasing out at $75,000 in adjusted gross income for single filers and $110,000 for joint filers, compared to $200,000 and $400,000 under the TCJA. To offset the cost of rate cuts, TCJA imposed limitations on itemized deductions like the state and local tax deduction (SALT) and the mortgage interest deduction, and temporarily eliminated the Pease limitation, which acted as a surtax on higher-income taxpayers, and significantly raised the thresholds for when the alternative minimum tax (AMT) kicks in. While expiration of the TCJA would mean the limitations on itemized deductions go away, more taxpayers would also face Pease and the AMT.

Social Security Policy

- Trump has vowed to protect Social Security but has not released a detailed plan for the program's future. The Social Security trust fund for retirees and their families faces a depletion deadline of 2033, at which point the fund's income could only pay 79% of its scheduled benefits.
- Trump, of note, has floated eliminating taxation of Social Security benefits. Generally, Republicans have called for an increase in the age at which people can claim full Social Security benefits as well as changes to the Primary Insurance Amount (PIA) benefit formula, auxiliary benefits for high-income earners, and a gradual transition to a flat benefit. In addition they would look for reforms of Social Security Disability Insurance (SSDI) by converting SSDI payments to a flat benefit structure that increases benefits for low-income workers and removes benefit cliffs.

Retirement Policy

- **General:** President Trump has generally been supportive of the existing system, and we do not expect to see any signicant changes to the tax favored nature of retirement plans.
- **Environmental, Social and Governance (ESG):** The Trump administration is likely to unwind the DOL's 2022 rule permitting ERISA fiduciaries to consider ESG factors when making investment decisions as long as it does not sacrifice investment returns or assume greater investment risks as a means of promoting ESG goals. The current

rule came after two rules late in the Trump administration were overturned. Those overturned rules said retirement plan fiduciaries could not invest in "non-pecuniary" vehicles that sacrifice investment returns. We expect the Trump administration to attempt to repeal the current investment factors regulation.

- **Fiduciary Advice:** The Trump administration is also likely to unwind the DOL's Retirement Security Rule that changed the five-part test that determines when someone is an investment advice fiduciary under ERISA so that one-time advice, such as rollovers to IRAs or annuity purchases, must be in an investor's best interest.
- **SECURE 3.0:** Since 2019, Congress has passed two major bipartisan retirement security bills known as the SECURE Acts. SECURE 3.0 could come sometime in 2026 or 2027 and include:
  - **A Federal Automatic IRA:** A government sponsored retirement plan solution.
  - **Roth IRA to K Rollover:** Would allow Roth IRA balances to be rolled into Roth-designated buckets within 401(k) plans. Permitting these rollovers would allow the seamless transfer of Roth savings through the auto-portability process, reduce leakage, and make it easier for state auto-IRA participants to transfer these balances into 401(k) accounts when they change jobs.
  - **Cash Balance Plans:** A new integrated plan design that allows employers to match an employee's 401(k) deferrals through a "matching pay credit" under the cash balance plan.
  - **Qualified Charitable Distributions (QCDs):** Would provide for exclusion from an individual's gross income of up to $100,000 in QCDs made from a 401(k) or 403(b) plan.
- **Retirement Fixes:** We are also awaiting technical corrections to SECURE 2.0 ensuring that participants can still make pre-tax catch-up contributions; clarifying that the Starter K contribution limit tracks with the IRA contribution limit; and clarifying the tax credit for small employer plan start-up costs. Additional items include those related to automatic enrollment and PEPs/MEPs, as well as special tax treatment for distributions to terminally ill plan participants. There is hope that legislation that would permit the use of collective investment trusts (CITs) in 403(b) plans could happen in the Lame Duck.

Lame Duck Session

- The Lame Duck session will begin on November 12 and will last until mid-December when Congress is dismissed. The primary focus will be on funding the government and military. Trump and House Republicans have proposed a strategy of pairing a six-month continuing resolution (CR) with a bill to require proof of citizenship to register to vote — titled the Safeguard American Voter Eligibility (SAVE) Act. Democrats (and some moderate Republicans), however, have said the SAVE Act is a non-starter in a dialogue on government funding. It is therefore likely to be another showdown over funding for fiscal 2025. Even if the CR-plus-SAVE Act package does clear the House, it is doomed in the Democratic-controlled Senate.
- Aside from government funding, the House will be focused on legislation to crack down on China. This could include banning foreign adversaries from purchasing agricultural lands and barring the Department of Homeland Security from funding higher education institutions with programs supporting Chinese cultural promotion.



PLEASE JOIN OUR WEBCAST:

The Election's Impact on Retirement Plans

Thursday, December 12, 2024 | Noon to 1:00 p.m. CT

REGISTER TO ATTEND

Sources: Details and Analysis of the 2017 Tax Cuts and Jobs Act - Tax Foundation, Budget and Economic Data | Congressional Budget Office, 2025 Tax Reform Options: Tax Cuts and Jobs Act Expirations and 2026 Tax Brackets if the TCJA Expires.

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