

8 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 will increase 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 will decrease 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 following year's RMD.



Turning 72 in 2023?

Consider when to take your first RMD: Either by December 31, 2024, or delay until no later than April 1, 2025. Remember, if you delay your first RMD to April 1, 2025, you'll need to take 2 RMDs in 1 tax year: Your first by April 1, 2025, which satisfies your required withdrawal for 2024, and your second by December 31, 2025, which satisfies your required withdrawal for 2025.

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.)

One caveat: If you earn more than \$145,000 in the prior calendar year, all catch-up contributions 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 were 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. Big Changes to RMDs

Qualified charitable distributions (QCDs). Beginning in 2023, people who are age 70½ and older may elect as part of their 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.

For people years away from retirement

5. 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.

6. 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.

7. 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.

8. 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.

While SECURE 2.0 provides increased opportunities to save for retirement, everyone's financial situation is different. As always, consult your financial advisor or tax professional to understand how SECURE 2.0 changes apply to you.