SECURE Act 2.0

CAPITAL ADVISORS

The much-anticipated SECURE Act 2.0 was included in the Consolidated Appropriations Act, 2023 and was signed into law just prior to the New Year. This bill makes several changes to retirement account rules. Below we have outlined the areas we feel are most likely to impact our clients.

Required Minimum Distributions (RMDs)

SECURE Act 2.0 further pushes back RMD age to 73 or 75, depending on your birth year. The RMD age was previously 72, a recent change provided in the original SECURE Act. If you are already taking RMDs, the new regulations will not change your distribution schedule or amount.

- Effective in 2023, the Required Beginning Date for RMDs is pushed back to age 73.
- Starting in 2033, the Required Beginning Date is further pushed back to age 75.
- If you turned 72 in 2022 or earlier, you would continue taking your RMD as scheduled.
- The tax penalty for a missed RMD is being reduced from 50% to 25%. It can be further reduced to 10% if you make a timely corrective distribution and file an amended tax return.
- Effective in 2024, Roth accounts in employer retirement plans will be exempt from RMD requirements. This continues to be the case for Roth IRAs.

Catch-up Contributions

Catch-up contributions allow most employer sponsored retirement plan participants aged 50 and older to make additional contributions to their retirement plans. SECURE Act 2.0 makes changes to amounts and the taxability of contributions for many of our clients.

- Effective in 2024, catch-up contributions for higher earning individuals are required to be deposited in Roth (after-tax) accounts. The earnings threshold is $145,000, adjusted for inflation, based on previous year earnings. While additional retirement savings are available to participants over age 50, tax savings may be reduced. This is the case for 401(k), 403(b), and governmental 457(b) accounts. IRAs, including SIMPLE IRAs, are excluded from this requirement.
- Effective in 2025, 401(k) and similar plan participants aged 60-63 can save additional retirement funds under a “special” catch-up contribution. The amounts increase for individuals aged 60-63 to the greater of $10,000 or 150% of current year catch-up provision ($7,500 for this year). Simple IRAs contributions increase to the greater of $5,000 or 150% of current year catch-up provision ($3,500 for this year). These amounts will be indexed for inflation.
- Effective in 2024, IRAs catch-up contribution limit, currently a stagnant $1,000 for people aged 50 and over, will be indexed to inflation. This means it will increase over time based on federally determined cost-of-living increases.

529 Plans

Starting in 2024, the SECURE Act 2.0 adds a unique opportunity to make a tax-free rollover of 529 assets into a Roth IRA for the beneficiary.

- The beneficiary must be the same between both accounts.
- For a permitted rollover, the 529 account must be open for a minimum of 15 years. In addition, contributions and associated earnings made in the last 5 years cannot be rolled over.
- The rollover is treated as a contribution toward the annual Roth IRA contribution limit. There is an aggregate lifetime limit of $35,000 per beneficiary.

Company Matching Contributions

- Beginning in 2024, employers may make qualified matching contributions to retirement plans based on qualified employee contributions for student loan payments.
- Currently, all employer matching contributions must be made to pre-tax accounts. The new bill allows, but does not require, employers to put matching contributions into an after-tax Roth account for employees. If the Roth election is selected, employees will include the matching dollars in their taxable income for the year.

Roth Option for SEP and SIMPLE IRAs

- Beginning in 2023, contributions to SEP and SIMPLE IRAs will be able to accept Roth contributions. Previously, they were only able to accept pre-tax dollars. If elected, Roth contributions will be included in the IRA owner's reportable income.

Expansion of Qualified Charitable Distributions (QCDs)

- Effective in 2023, QCD maximums, currently a stagnant $100,000 per IRA owner per year, will be indexed for inflation and will begin to increase over time.
- The Act includes an expansion for entities that can accept QCDs. Beginning in 2023, IRA owners age 70½ and older may do a one-time gift, up to $50,000, to a charitable remainder trust or a charitable gift annuity. Based on restrictions included in the Act, we foresee the charitable gift annuity being the most attractive vehicle to take advantage of this provision.
- QCDs are a way for IRA owners over age 70½ to gift to qualified charities, satisfy some or all of their RMD, and potentially increase tax savings. There are specific requirements that must be met for a QCD, please contact us if you would like to discuss further.

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