01.09.23 | FINANCIAL PLANNING

SECURE Act 2.0

J. Michael Grenon, CIMA® – Principal, Vice President

Happy New Year to our friends and clients from the team at Grimes and Company. The holiday season is a time for many to focus on family and friends, but it is often a busy time for us as we wrap up a number of year-end planning issues. This year was no different, and on December 29th, the Consolidated Appropriations Act, 2023 was signed into law. This included the **Secure 2.0 Act of 2022**. It is the follow up legislation to the original Setting Every Community Up for Retirement Enhancement (SECURE) Act that was passed in 2019, which created a number of retirement planning opportunities and challenges that we and our clients have been addressing. Together, the two Acts are an attempt by the House and Senate to address the retirement crisis in the United States by expanding participant coverage, helping participants preserve income, and incentivizing both employers and participants to establish and contribute to retirement plans. Although SECURE 2.0 has been in the news for over a year, the recent passage of the Act revealed the details we have been waiting for, which we will attempt to summarize below.

- Increased RMD age – Starting in 2023, the required minimum distribution (RMD) age has been raised from age 72 to age 73. Beginning in 2033, it will be raised to age 75. This applies to Traditional and Rollover IRAs, as well as terminated participants who may have assets in 401(k), 403(b), or other qualified plans.

- Reduced penalties for missed RMDs – The excise tax for failing to take one's RMD has always been particularly penal, at 50% of the amount not taken. Starting in 2023, it has been reduced to 25%, with the ability to reduce it to 10% if corrected in a timely manner.
- Catch up contributions – Starting in 2025, individuals ages 60-63 will be able to make catch up contributions of up to $10,000 annually in their 401(k), 403(b), and governmental 457(b) plans. Those catch-up limits were recently increased to $7,500 for those over age 50. If an individual earns over $145,000, those catch-up contributions must go into Roth accounts (starting in 2024).The catch-up amount for individual IRAs is currently $1,000 and was not subject to increases for inflation under the past rules, but it will be going forward after 2023.
- Expansion of auto enrollment – All new 401(k) and 403(b) plans established after December 31, 2024 must automatically enroll eligible participants (who don't opt out) at a 3% minimum with an annual automatic escalation feature of 1% additional per year until it hits 10%.
- Tax credits for small businesses – In an effort to encourage the establishment of these new plans, starting in 2023, eligible businesses with 50 or fewer employees can qualify for a credit equal to 100% of the administrative costs associated with starting a plan, capped at $5,000.
- Employer Roth contributions – Employer match and non-elective contributions can now be made as Roth contributions, so long as the participant is fully vested in those contributions. Prior to this, all employer contributions were done on a pre-tax basis.
- Roth 401(k) RMDs no more – In an attempt to align employer sponsored Roth accounts with Roth IRAs, RMDs will no longer be required from employer sponsored Roth accounts beginning in 2024 (401(k) and 403(b)).
- 529 to Roth benefit – After 15 years, unused 529 balances can be rolled over into a Roth IRA for the beneficiary, subject to annual Roth contribution limits and with a $35,000 lifetime limit.
- Student loan payment matching – Starting in 2023, employers will be able to match employee student loan payments with contributions to a retirement account, thus helping many recent graduates start to save earlier for retirement.
- Emergency Savings – Also starting in 2023, a defined contribution plan may offer non-highly compensated participants the option of contributing to an emergency savings account up to a maximum of $2,500 via a Roth contribution. Employers may automatically enroll participants at a maximum of 3% of eligible compensation.
- Saver's Credit becomes match – Introduced in 2001, the Saver's Tax Credit was meant to incentivize lower income earners to save into retirement plans by introducing a tax credit of up to 50% of one's contributions to a retirement plan, up to $2,000 per year. Beginning in 2027, this will become a federal matching program that would be deposited into saver's retirement accounts.
- Qualified Charitable Distributions – Starting in 2023, individuals who are age 70 ½ or older may make qualified charitable distributions (QCD) of up to $50,000 to a charitable remainder unitrust, charitable remainder annuity trust, or a charitable gift annuity. This expands the types of charities that can receive a QCD. The $100,000 annual QCD limit remains in place for gifts made to qualified charities and these gifts would be counted toward an

investor’s RMD.

There are a number of other changes that are positives, but too numerous to contain in a concise blog. Given the fact that this was just recently passed, we will continue to monitor industry updates as we all digest the details and the implications for various clients. We encourage everyone to consult with us and your tax advisor to see if there are specific changes that may impact you.

Important Disclosure Information:

Sources include eSignal.com, Bureau of Economic Analysis, Bureau of Labor Statistics and FactSet. Not a substitute for tax or legal advice.

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