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# SECURE Act 2.0 Highlights

Understand key provisions that may impact your financial and retirement planning

As school and work adjourned for the holidays in late December, some of Congress' most substantial efforts of the year were underway as its members sought to pass a 2023 fiscal year spending bill. Ultimately, they succeeded, with a $1.7 trillion package being signed into law by President Biden on December 27. Among other measures, the legislation contains the Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0, a group of retirement reforms intended to expand and increase retirement savings.

The Act, which builds on prior legislation passed in 2019, includes a wide range of provisions to help both older and younger workers, including further increasing the age at which required minimum distributions (RMDs) must be made and enabling employers to "match" student loan payments with retirement plan contributions.

Here are some key SECURE Act 2.0 provisions to note and review with a financial advisor as you plan for 2023 and beyond.

## Changes to Required Minimum Distributions (RMDs)

- **Ability to wait:** Beginning this year, 2023, the age at which retirement account owners must begin taking RMDs increases to 73 and will increase to 75 starting in 2033. Please note that this applies only to those who had not yet turned 72 as of year-end 2022. If you turned 72 in 2022 or earlier, you will need to continue taking RMDs as scheduled.
- **Roth accounts exempt:** Beginning in 2024, Roth accounts in employer retirement plans will no longer be subject to RMD requirements.
- **Penalties reduced:** Beginning this year, 2023, the penalty for not taking an RMD will decrease from 50% to 25% of the RMD amount not taken, and to 10% in certain instances when the situation is rectified promptly.
- **Annuities aggregated:** Starting this year, 2023, the portion of retirement accounts with an annuity holding(s) can be aggregated with the rest of the account for purposes of applying RMD rules, resulting in lower RMDs for some individuals who hold annuities in their retirement accounts.
- **More favorable rules for surviving spouses:** Beginning in 2024, surviving spouses can elect to be treated as their deceased spouse for purposes of RMD rules. This would typically favor those who are older than their deceased spouse.

### Charitable Distributions

- **Qualified charitable distribution (QCD) expansion:** Starting this year, 2023, as part of their QCD limit, individuals age 70 1/2 and older may make a one-time, $50,000 distribution to charities through charitable gift annuities, charitable remainder unitrusts and charitable remainder annuity trusts. This amount counts toward your RMD, if applicable.
- **QCD increase:** Beginning this year, 2023, the annual IRA charitable distribution limit of $100,000 will be indexed for inflation, meaning it may increase every year, based on cost-of-living adjustments.

### Changes to Contributions

- **Larger catch-up contributions:** There are a couple changes to note here.
  - First, beginning in 2025, retirement savers ages 60–63 will be allowed to contribute the greater of $10,000 a year or 50% more than the regular catch-up amount to their workplace plans. In 2023, the catch-up contribution limit for the broader population of those age 50 and older is $7,500. The increased amounts are indexed for inflation after 2025. Please note, however, that if you earned more than $145,000 during the prior year, all catch-up contributions will need to be made in after-tax dollars.
  - Second, beginning in 2024, the current $1,000 catch-up contribution limit for IRAs will be indexed to inflation, meaning it may increase every year, based on cost-of-living adjustments.
- **Roth matches:** Beginning this year, 2023, employer-sponsored plans can provide plan participants the option to receive matching contributions on a Roth (after-tax) basis. Under previous law, matching in employer-sponsored plans was allowed only on a pre-tax basis.
- **Auto enrollment:** Starting in 2025, upon becoming eligible, employers will automatically enroll eligible employees in employer-sponsored 401(k) and 403(b) plans (however, employees will be allowed to opt out of coverage). The initial automatic enrollment amount is at least 3% but not more than 10%, automatically adjusting each year thereafter by 1% until reaching at least 10%, but not more than 15%.
- **Lower penalties for excess contributions:** Beginning this year, 2023, there will be a six-year statute of limitations on the annual excise tax applied to excess contributions made to IRAs in order to limit the penalties taxpayers (who are often unaware of the requirements) accumulate over time. In addition, the additional 10% tax that is currently charged on corrective distributions — withdrawals made to remove excess contributions and any associated earnings — has been eliminated.

### Changes Particularly Relevant to Younger Individuals Making It Easier to Save

- **Student loan payment matches:** Beginning in 2024, employers can "match" employee student loan payments with matching payments to a retirement account. This enables retirement saving among employees who may otherwise refrain as they pay off their student loan debt.
- **Leftover 529 plan rollovers:** Beneficiaries of 529 college savings accounts can now roll over up to $35,000 over the course of their lifetime from any 529 account in their name to their Roth IRA. This helps alleviate concerns that money allocated to 529 accounts will be "trapped" if ultimately unused, encouraging greater savings for both education and retirement. Please note that these rollovers are subject to Roth IRA annual contribution limits and that the 529 account must have been open for more than 15 years.

### New Measures to Address Financial Emergencies

- **Introduction of tax-favored emergency savings accounts:** Employers will now have the option to offer non-highly-compensated employees pension-linked emergency savings accounts and will have the option to automatically opt their employees into these accounts at no more than 3% of their salary per year — capped at no more than $2,500 per year. Contributions must be made on an after-tax basis.
- **Limited penalty-free withdrawals:** Beginning in 2024, individuals may withdraw up to $1,000 per year penalty free from their tax-deferred retirement accounts to fund unforeseeable or immediate financial needs relating to personal or family emergency expenses. Prior to the introduction of this exception, such withdrawals would typically be subject to an additional 10% early distribution tax. Please note that only one distribution of this kind can be made every three years if repayment to the accounts does not occur.

### Less Punitive Rules for Those Needing to Access Funds in Special Situations

The SECURE Act 2.0 also includes several provisions that make it easier to access retirement funds under a variety of scenarios, including (but not limited to): birth or adoption, hardship (you can now self-certify), terminal illness and more.

## WE ARE HERE TO HELP

These are just some of the key provisions from the legislation's 300-plus pages. To understand if and how these changes apply to your situation — and for help with next steps — please reach out to us. We work closely with our clients' accountants, attorneys and other advisors to help optimize financial plans, and this new legislation provides the opportunity to uncover new opportunities together.

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