PALLAS CAPITAL ADVISORS

Secure 2.0: How new changes to retirement laws will affect you

The Setting Every Community Up for Retirement Enhancement Act of 2019, popularly known as the SECURE Act, was signed into law in late 2019. That law, now called SECURE Act 1.0, included provisions that raised the requirement for mandatory distributions from retirement accounts and increased access to retirement accounts.

It's three years later, and President Biden has just signed the 2023 Consolidated Appropriations Act (CAA) into law on Dec. 29. The law, which passed the House and Senate on Dec. 23 and Dec. 22, respectively, contains significant changes to employer-provided retirement plans and individual retirement plans. SECURE Act 2.0, builds on SECURE Act 1.0 by encouraging Americans to save for retirement.

In our view, the SECURE Act 1.0 and 2.0 updates were long overdue. The new rules recognize that Americans are living and working longer.

10 key takeaways on Secure act 2.0

1. Changing the age of the required Minimum distribution

Three years ago, the SECURE Act 1.0 increased the age for taking the required minimum distribution, or RMD, to 72 years from 70½. If you turn 72 this year, the age required for taking your RMD rises to 73 with SECURE Act 2.0.

If you turned 72 in 2022, you'll remain on the prior schedule.

If you turn 72 in 2023, you may delay your RMD until 2024, when you turn 73. Or you may push back your first RMD to April 1, 2025. Just be aware that you will be required to take two RMDs in 2025, one no later than April 1 and the second no later than December 31.

Starting in 2033, the age for the RMD will rise to 75.

Employees enrolled in a Roth 401(k) won't be required to take RMDs from their Roth 401(k). That begins in 2024.

2. RMD penalty relief

Beginning this year, the penalty for missing an RMD is reduced to 25% from 50%. And 2.0 goes one step further. If the RMD that was missed is taken in a timely manner and the IRA account holder files an updated tax return, the penalty is reduced to 10%.

3. Enhancements allowed for employer-sponsored plans

Starting in 2025, companies that set up new 401(k) or 403(b) plans will be required to automatically enroll employees at a rate between 3% and 10% of their salary.

The new legislation also allows for automatic portability, which will encourage folks in low-balance plans to transfer their retirement account to a new employer-sponsored account rather than cash out.

In order to encourage employees to sign up, employers may offer gift cards or small cash payments.

Roth employer matching. The new legislation permits employers to offer Roth matching contributions into an employee's 401(k) account. Currently, employer match money goes into employee accounts on a pretax basis. Under the new rules, employees can now choose to take the Roth match, which means they are able to pay taxes up front and then later take out the contributions, and potentially the earnings, tax-free.

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.

4. Increased catchup provisions.

Beginning in 2025, catch-up contributions for participants between the ages of 60 and 63 in non-SIMPLE plans will increase to the greater of $10,000 or 150% of the regular catch-up amount. (The catch-up amount for people age 50 and older in 2023 is currently $7,500.)

One caveat: Starting in 2024 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.

5. Charitable contributions.

Beginning in 2023, people who are age 70½ and older may elect as part of their Qualified Charitable Distribution (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.

2.0 also indexes the annual IRA charitable QCD limit of $100,00, beginning in 2023.

6. Back-door student loan relief.

Starting next year, employers are allowed to match student loan payments made by their employees. The employer's match must be directed into a retirement account, but it is an added incentive to sock away funds for retirement.

Additional Miscellaneous provisions

7. disaster relief

You may withdraw up to $22,000 penalty-free from an IRA or an employer-sponsored plan for federally declared disasters. Withdrawals can be repaid to the retirement account.

8. help for survivors

Victims of abuse may need funds for various reasons, including cash to extricate themselves from a difficult situation. 2.0 allows a victim of domestic violence to withdraw the lesser of 50% of an account or $10,000 penalty-free.

9. small business owners take note.

Beginning in 2028, owners of an S corporation may defer recognizing taxable income on the sale of their company to a qualified plan known as an Employee Stock Ownership Plan (ESOP) that owns at least 30% of the corporation's stock if the sales proceeds are reinvested into qualified replacement property. This deferral has historically been limited to C Corporations. Unlike with C corporations, however, only 10% of the sale proceeds of the sale to an S corporation ESOP may be deferred.

10. rollover of 529 plans

Starting in 2024 and subject to annual Roth contribution limits, assets in a 529 plan can be rolled into a Roth IRA, with a maximum lifetime limit of $35,000. The rollover must be in the name of the plan's beneficiary. The 529 plan must be at least 15 years old.

In the past, families may have hesitated in fully funding 529s amid fears the plan could wind up being overfunded and withdrawals would be subject to a penalty. Though there is a $35,000 cap, the provision helps alleviate some of these concerns.

Final Thoughts

The just -enacted bill helps address some of the challenges many face as they march toward retirement. While SECURE 2.0 provides increased opportunities to save for retirement, everyone's financial situation is different. As always, consult your Pallas financial advisor or tax professional to understand how SECURE 2.0 changes apply to you.