Important Changes from SECURE Act 2.0

Securing one's financial future is important to all and the pandemic brought many people's fears on under saving for retirement to the forefront. In fact, in the May 2022 U.S. Federal Reserve Survey of Household Economics and Decision-making about one-fourth of non-retired adults indicated that they did not have any retirement savings. While most non-retired adults had some type of retirement savings, only 40% of non-retirees thought their retirement saving was on track.

Fortunately, there is some good news on this front and the Setting Every Community Up for Retirement Enhancement Act 2.0 (SECURE Act 2.0) attempts to address some of the concerns highlighted in the Fed's survey.

What is SECURE ACT 2.0?

SECURE Act 2.0 was proposed by a group of bipartisan lawmakers and became law on December 29, 2022. It includes several changes to the original SECURE Act passed in 2019 and attempts to accomplish three goals: (1) to get people to save more for retirement, (2) improve retirement rules, and (3) lower employer costs of setting up a retirement plan.

Key Provisions of SECURE Act 2.0

A. Changes to Required Minimum Distributions (RMDs):

Required Minimum Distributions (RMDs) are the minimum amounts an individual must withdraw from their retirement accounts each year once they get to a certain age. This is Uncle Sam's way of forcing them to take money out of their retirement accounts and pay income tax on the distributions. The changes provided in the SECURE Act 2.0 allow individuals to keep their money invested for longer without forced withdrawals until later ages.

Currently, individuals are required to start taking distributions from their individual retirement accounts at age 72. Starting January 1, 2023, the age to begin taking RMDs increases to 73. And, if an individual attains age 74 after 2032, their RMD start age is 75.

Another important change is the penalty for failing to take an RMD. Currently, the amount required but not withdrawn is subject to a 50% excise tax. SECURE Act 2.0 reduces the excise tax to 25% and may be further reduced to 10% by withdrawing the amount previously not taken and submitting a correction with the IRS in a timely manner.

SECURE Act 2.0 also made an important change to qualified charitable distributions (QCDs). A QCD is money donated to a charity from an IRA and counts toward an individual's RMD. Normally, distributions from a traditional IRA are taxable when received by the individual. With a QCD, however, these distributions become tax-free if they are paid directly from the IRA to an eligible charitable organization. The total of all QCDs from an individual's IRAs cannot exceed $100,000. This amount has not changed since the QCD was made permanent by the Protecting Americans from Tax Hikes Act in 2015. Beginning in 2024, this amount will be indexed for inflation. A QCD can be a valuable tool for individuals who want to make charitable contributions from their IRA without recognizing additional income. Those considering a QCD should seek the advice of his or her tax advisor to ensure that all financial and estate planning objectives are met.

The SECURE Act 2.0 now also makes it possible to give a one-time annual gift of up to $50,000 to a charitable remainder unitrust, charitable remainder annuity trust, or charitable gift annuity. For the gift to be eligible, it must come from an individual's IRA by the end of the calendar year.

B. Catch-Up Contributions to Traditional IRAs

If you are 50 or older, catch-up contributions allow you to save an additional amount in your IRAs and/or 401(k)s. This provides the opportunity to save more for retirement, especially for those that are behind in their retirement savings goals.

For IRAs, the annual standard contribution limit for 2023 is $6,500. This is an increase from 2022 in which the amount was $6,000. The catch-up contribution amount if you're age 50 or older remained $1,000 allowing you to contribute a total of $7,500 in 2023. In the past, the standard contribution limit has gradually increased to match higher costs of living, but catch-up contributions were static. SECURE Act 2.0 plans to gradually increase IRA catch-up contributions as costs of living rise.
For people saving for retirement through employer-sponsored plans such as a 401(k), SECURE Act 2.0 introduces a new category of catch-up contributions for those aged 60 to 63. Starting in 2025, these older workers can contribute the greater of $10,000 or 50% more than the regular catch-up amount to their 401(k). These limits will regularly increase with inflation.

C. Retirement Plan Changes

One of the main reasons many Americans reach retirement age with little, or no savings is that too few workers are offered an opportunity to save for retirement through their employers. Even when retirement plans at work are offered, many do not participate.

SECURE Act 2.0 has made a few changes to help employers and employees streamline the process and help people start saving for retirement sooner. Some of these changes include:

- SECURE Act 2.0 aims to make it easier for businesses to offer retirement plans to their employees by providing tax credits for start-up costs and expanding eligibility.
- For new plans, there will be automatic enrollments for eligible employees. The amount will start at 3% and increase by 1% year, not to exceed 10%.
- For plan years beginning after December 31, 2023, an employer may make retirement plan matching contribution to a participant's retirement account when that participant makes a "qualified student loan

payment." This applies to 401(k) plans, 403(b) plans, SIMPLE IRAs and governmental 457(b) plans. Employers may elect to apply nondiscrimination testing related to elective contributions separately to employees who receive these matching contributions.

- Down the road for plan years beginning after December 31, 2024, SECURE Act 2.0 builds on the SECURE Act requirement that employer-sponsored plans allow long-term part-time workers to participate. Rather than needing to complete three years of service with at least 500 hours worked, employees need only complete two years of such service.

These are just a few of the changes that SECURE Act 2.0 is making to retirement plans. There are many more that require attention or consideration.

Why is SECURE Act 2.0 important?

In addition to the original SECURE Act, SECURE Act 2.0 is one of the broadest pieces of retirement plan legislation in decades and it seeks to address some critical issues. For example, increasing the RMD age acknowledges that people are living longer and need to have access to their retirement savings for a longer period of time. It will also give people more flexibility in managing their retirement savings to meet their individual needs.

Similarly, expanding the eligibility for retirement plans will allow more people to benefit from these plans, which can be critical for those who do not have access to a pension or other retirement benefits. This can help to reduce the number of people who rely solely on Social Security benefits in retirement.

SECURE Act 2.0 is working toward a solution so that more people can save for retirement and not outlive those savings. As you assess your own financial future, make sure to consult with your tax advisor to understand the taxable impact of any decisions you make.

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Sources: American Society of Pension Professionals, Baker Tilly, Bloomberg Finance, L.P., CNBC, Fidelity, Foley & Lardner LLP, Forbes, Morgan Lewis, PWC, The U.S. Federal Reserve, The U.S. Internal Revenue Service.

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