Planning Perspectives

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SECURE Act 2.0

Over the past several years, retirement-concentrated effort by Congress has resulted in a number of changes to laws affecting retirement savings. This started in January 2020, with the passage of the SECURE (Setting Every Community Up for Retirement Enhancement) Act, which was deemed (at the time) the largest retirement reform since the Pension Protection Act passed in 2006. On December 29, 2022, SECURE Act 2.0 was signed into law by President Biden, greatly enhancing the initial bill to provide additional flexibility when saving for retirement. Our team has reviewed the roughly 90 changes that were incorporated in this bill and highlight below those that we believe would have the greatest impact to our clients.

529 to Roth IRA Rollovers

Summary: Secure Act 2.0 has provided additional opportunities to avoid the 10% penalty for nonqualified distributions of 529 plans, should the beneficiary not utilize all funds for their original purpose. Section 126 of Secure Act 2.0 allows for the beneficiary to rollover up to $35,000 during their lifetime to fund a Roth IRA, subject to the annual Roth IRA contribution limits (the 2023 maximum is $6,500). The 529 plan must be open for 15 years prior to executing these rollovers, but this provides an opportunity to not only save for education-related expenses, but also provide a jumpstart to the beneficiaries' retirement savings.

Timing: Rule is effective for distributions after December 31, 2023.

Those Impacted: This change not only impacts younger generation by providing a tax-advantaged platform for education-related expenses and a potential boost to their retirement savings, but also can be used as a tool to reduce the taxable estates of more affluent investors.

RMD Penalty Cut to 25%

Historically, failure to distribute your RMD resulted in a penalty of 50% of the year's RMD amount. Continuing the theme of providing additional flexibility for retirement savers, this bill reduces the penalty amount to 25% of the year's RMD value. Additionally, if the failure to take an RMD is corrected in a timely manner, the penalty is further reduced to 10%.

Timing: This provision took effect the date Secure Act 2.0 was signed into law.

Those Impacted: Those of RMD age.

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RMD Age Increase

Summary: The original Secure Act increased the age at which Required Minimum Distributions ("RMD's") must be taken, from 70 ½ years of age to 72. This bill increases the RMD age even more. Starting January 1, 2023, RMD's are not mandatory until age 73, and the age limit will further increase to age 75 starting January 1, 2033. This not only allows for account owners to defer the tax liability associated with distributions from Traditional IRA's, but also (and more importantly, in our opinion) allows for investors to keep money invested for a longer period of time. Investors still have the opportunity to take distributions from a Traditional IRA penalty-free after age 59 ½, but the additional flexibility to keep funds invested in a tax-deferred vehicle is a major enhancement in this bill.

Timing: Age limit increase to 73 for RMD's is effective January 1, 2023.

Those Impacted: Current and soon-to-be retirees.

Secure Act 2.0: New Required Minimum Distribution Ages Effective 2023	
Birth Year	RMD Age
Before 1951	No Change
1951-1959	RMD starts at Age 73
1960 & Later	RMD starts at Age 75

Certain Limits Now Indexed to Inflation

Summary: Inflation has been a top focus of market participants throughout the last 18 months, and this bill is no different. Prior to Secure Act 2.0 being signed into law, many retirement contribution and distribution limits were capped at a certain number that did not grow from year to year. This bill changed a couple of these limits to be indexed to inflation, most notably the Qualified Charitable Distribution and the IRA catch up clause.

Prior to this bill, account owners had the ability to make a charitable gift of up to $100,000 annually from a Traditional IRA and be exempt from paying ordinary income tax on the distribution. Now this $100,000 is indexed for inflation, meaning the limit will rise in future years.

The IRA "catch-up" clause is similar in nature to the Qualified Charitable Distribution, in that those age 50 or older had the opportunity to contribute an additional $1,000 above the IRA contribution maximum. This clause has now been indexed to inflation, allowing those eligible to add a greater amount to their IRA accounts over time.

Timing: The Qualified Charitable Distribution took effect the date Secure Act 2.0 was signed into law. The IRA catch-up clause changes will take effect after December 31, 2023.

Those Impacted: This rule change has a broad impact to essentially every retirement account holder, particularly those eligible for catch-up contributions and those who have charitable intent.

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Employer Contributions on a Roth Basis Now Allowed

Under current law, employer contributions within 401k, 403b, and governmental 457b plans can only be made on a pre-tax basis. Secure Act 2.0 amends this current rule to allow participants the option to receive these employer contributions on a Roth basis, paying the taxes up front and allowing the match to grow tax-free rather than tax-deferred. For those focused on building retirement assets on a Roth basis, this is a significant change that can greatly impact the financial flexibility of individuals during retirement.

Timing: This provision took effect the date Secure Act 2.0 was signed into law.

Those Impacted: Broad-based impact on all retirement savers, particularly those that have identified Roth-based saving as a desired tool in their financial plans.

Although we believe these changes outlined above are likely to have the greatest impact to the largest group of individuals, there are many other changes we have not addressed in this piece that could impact your unique circumstances. For any questions relating to these changes or for a further discussion on your retirement savings options, please reach out to a member of our client service team. We look forward to hearing from you.