WHAT THE SECURE ACT 2.0 MEANS FOR YOUR RETIREMENT

The Setting Every Community Up for Retirement Act, also known as the SECURE Act, originally passed into law on January 1, 2020. Recently, in December of 2022, this act was updated with new measures to help Americans retire better. The main provisions passed into law through this act are detailed below.

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1. INCREASED REQUIRED MINIMUM DISTRIBUTIONS (RMD) AGE

Since 2000, the number of people aged 70-74 in the workforce has increased by 49%. One in three people between the ages of 65 and 69 is currently working. Put simply, many people are retiring later. Because of this, the act increased the RMD age from 70 ½ to 73 as of 2023. It will increase again on January 1, 2033, to age 75. If you plan to take your first distributions from qualified accounts [401(k)s, 403(b)s, IRAs, etc.] this year, it's important to talk to a financial professional about this change.

2. DECREASED PENALTY FOR NOT TAKING RMDS ON TIME

Previously, not taking your RMD by December 31 each year (or April 1 of the year after you turn 73), would result in a 50% penalty from the IRS. So, for example, if your RMD was $10,000, that would mean the IRS would receive $5,000 of your distribution as a penalty. With the new legislation, that penalty was reduced to 25%, meaning you would only owe $2,500 of that $10,000 distribution. And, if the account owner withdraws the RMD amount previously not taken and submits a corrected tax return in a timely manner, that penalty is further reduced to 10%.

3. REMOVED THE MAXIMUM AGE LIMIT FOR TRADITIONAL IRA CONTRIBUTIONS

Since there are so many who are working into conventional retirement years, the maximum age limit for traditional IRA contributions was removed. This means that as long as you are working, you can continue to make contributions to your traditional IRA so that it more closely aligns with your 401(k) or Roth IRA contributions.

4. INCREASED ACCESS TO ANNUITIES WITHIN 401(K) PLANS

Because annuities can offer guaranteed income over a retiree's lifetime, the SECURE Act allows employers to offer more lifetime income options. However, because these will be chosen by the retiree's employer rather than the employee, it's important to talk to a financial professional about this first before purchasing an annuity and choose a reputable insurance company as these guarantees are backed by the claims-paying ability of the issuing insurance company.

5. ERADICATION OF THE "STRETCH" OR INHERITED IRA PROVISION

Under previous law, the beneficiaries of an inherited IRA could stretch their distributions and tax payments out over their lives or continue to pass that money on tax-deferred to the next generation. Now, that provision has been eliminated and is now replaced with a new law requiring these beneficiaries to withdraw all assets from the inherited IRA or 401(k) plan within 10 years following the death of the account holder.

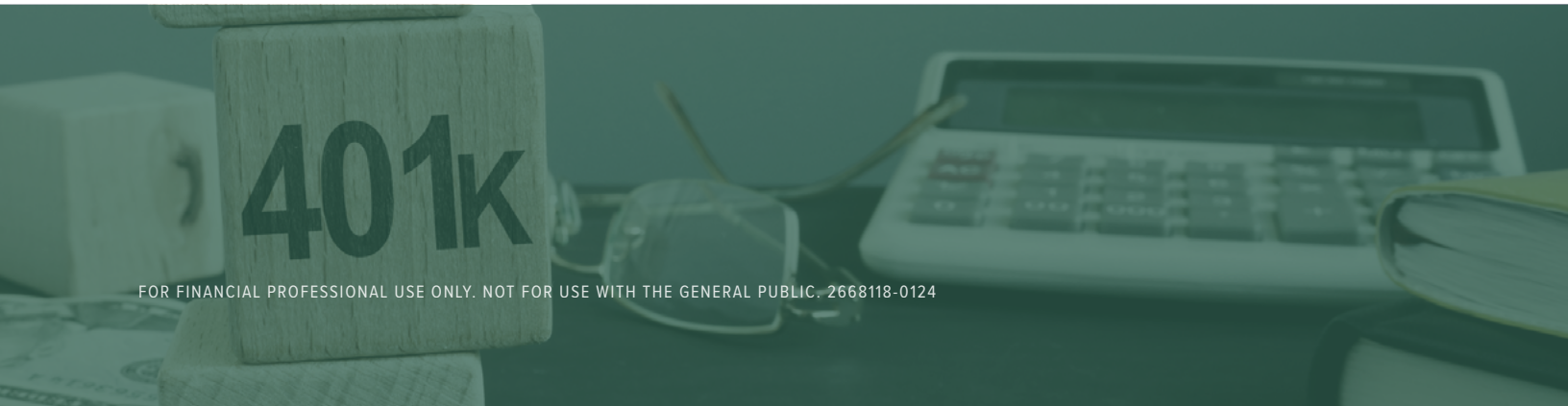
There are exceptions to this rule that include assets left to a surviving spouse, a minor child, a disabled or chronically ill beneficiary, and for beneficiaries who are less than 10 years younger than the original owner. However, these changes can drastically change how you may choose to leave your money to your loved ones.

6. INCREASED CATCH-UP CONTRIBUTION LIMITS

For those between the ages of 60-63, the contribution limits for retirement plans have increased to $10,000 or 150% (whichever is greater) for the regular catch-up amount for 2024. These amounts will be adjusted annually based on cost of living and are effective for taxable years beginning after December 31, 2024.

7. RETIREMENT PLAN EMERGENCY SAVINGS ACCOUNTS ALLOWED

For employees who are not highly compensated, employers may now offer them emergency savings within the retirement plan. They may automatically enroll those employees at no more than 3% of their salary and capped at $2,500. These contributions are also made as Roth contributions, treated as elective deferrals for the purposes of matching contributions, and with a matching contribution cap equal to the maximum account balance. If the employee leaves employment, they can take the account as cash or roll it over into a Roth defined contribution plan or IRA. This portion of the legislation is effective for plan years beginning Jan. 1, 2024.



8. EMERGENCY WITHDRAWALS ALLOWED

Effective Jan. 1, 2024, individuals may withdraw up to $1,000 per year from their retirement accounts for certain emergencies without paying the 10% early withdrawal tax, and they have the option to move the money back into their accounts within three years. They cannot take more than one withdrawal during that 3-year period until the previous withdrawal is paid back.

9. MATCHING FOR ROTH ACCOUNTS AND ROTH EXEMPTIONS

Employers will be able to provide employees with the option of receiving vested matching contributions to Roth accounts. Previously, matching was made on a pre-tax basis, whereas Roth plan contributions are made after-tax and grow tax-free. Additionally, Roth accounts in employer retirement plans will be exempt from the RMD requirements starting in 2024.

10. QUALIFIED CHARITABLE DISTRIBUTIONS (QCDS) CHANGES

As of 2023, people aged 70 ½ and older may elect as part of their QCD a one-time gift of up to $50,000, adjusted annually for inflation, to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity. This amount can also count toward your annual RMD, if applicable. These gifts must come directly from your IRA at the end of the calendar year.

Sources:

https://www.fidelity.com/learning-center/personal-finance/secure-act-2
https://www.finance.senate.gov/imo/media/doc/Secure%202.0_Section%20by%20Section%20Summary%2012-19-22%20FINAL.pdf