SECURE 2.0

WHAT IT MEANS FOR YOUR RETIREMENT SAVINGS

On December 29, 2022, the SECURE 2.0 Act was signed into law. While "Son of SECURE" is not quite the game changer for IRAs that the original SECURE Act was, there are many new provisions. How will this legislation affect you and your retirement savings? Here are some highlights:

RMD Age Increased in 2023

The age for required minimum distributions (RMDs) to begin is increased to 73 starting in 2023. This age will increase again to 75, but not until January 1, 2033. If you do not want to take an RMD or pay the corresponding tax bill for as long as possible, this is welcome news. This provision is helpful if you do not need the money, and it also provides another year of potential Roth conversions without concerns about RMDs.

Be aware there is a downside to delaying your RMD since, ultimately, the funds in the account will need to come out. Based on a higher account balance and a shorter life expectancy, future RMDs will likely be larger. To avoid this, consider strategic distribution planning before RMDs are necessary, in order to take advantage of historically low tax rates. Roth conversions and life insurance could be good alternatives to taxable retirement account funds.

The delayed RMD age will not help everyone. If you are already subject to RMDs under the old 70½ or 72 RMD age rules, you must continue to follow your existing RMD schedule.

QCDs Expanded

There is good news if you are charitably inclined, have an IRA, and are age 70½ or older. Starting in 2023, a one-time only, $50,000 qualified charitable distribution (QCD) can be made to a charitable gift annuity, charitable remainder unitrust, or charitable remainder annuity trust. The $50,000 amount is included in the annual $100,000 QCD limit. It is not in addition to that maximum.

Also, the QCD limit of $100,000 will be indexed for inflation starting in 2024, thereby allowing you to move more money tax-free from your IRA to the qualifying charities of your choice.

Larger QLACs Allowed

The 25%-of-assets limit for purchasing a qualified longevity annuity contract (QLAC) is repealed, and up to $200,000 can be used from an IRA account balance for such a purchase. This provision is effective for 2023.

If you are concerned about outliving your retirement savings, this change may help you better guarantee an income stream for later years. It also has the side benefit of reducing current RMDs.

Roth-O-Mania Is Here

Are you ready for more retirement savings opportunities with Roth IRAs? Congress opened the door to more Roth possibilities in its search for immediate tax revenue.

Beginning in 2023, SEP and SIMPLE IRA plans can allow Roth contributions. Also, plans can allow employer matching contributions to be made on a Roth basis. Starting in 2024, all plan catch-up contributions for age 50-or-over, higher-income employees must be Roth contributions.

Rollovers from 529 Plans to Roth IRAs

SECURE 2.0 allows rollovers from 529 plans to Roth IRAs. This provision is effective in 2024.

Did your child earn a scholarship? Did the beneficiary of a 529 account decide not to go to college and now there are funds remaining in the account? If you had concerns about what to do with funds left over in a 529 plan, this may be a good strategy to employ. Leftover 529 funds can now be rolled over to a Roth IRA in the name of the 529 beneficiary. However, there are restrictions. For example, the 529 plan must have been in place for 15 years, annual rollovers cannot exceed the annual Roth IRA contribution limit, and total lifetime rollovers cannot exceed $35,000.

More Catch-Up Contributions

If you are nearing retirement, SECURE 2.0 brings more savings opportunities. Starting in 2025, individuals who are ages 60, 61, 62 and 63 will be eligible to make larger catch-up contributions to their work plans. Also, the IRA catch-up contribution limit, which has been stuck at $1,000, will be indexed for inflation beginning in 2024.

More SIMPLE IRA Contributions

SECURE 2.0 also brings new savings opportunities for small businesses with SIMPLE IRA plans. Beginning in 2024, higher salary deferrals and additional nonelective contributions will be allowed. And, starting in 2025, SIMPLE IRA participants who are ages 60-63 can make larger catch-up contributions.

No Lifetime RMDs for Roth Plans

Do you have a Roth account in your employer plan? Here is a welcome change. Unlike Roth IRAs, Roth accounts in workplace plans have been subject to RMDs during the owner's lifetime. Beginning in 2024, this will no longer be the case – Roth plan dollars will be excluded from the RMD calculation.

Expanded Exceptions to the 10% Early Distribution Penalty

A slew of new 10% penalty exceptions have been added, with different effective dates. These include: distributions for federally declared natural disasters - $22,000 limit (effective retroactively to 1/26/21); terminal illness (effective immediately); pension-linked emergency savings accounts - $2,500 limit (effective 2024); domestic abuse - $10,000 limit (effective 2024); financial emergencies - $1,000 limit (effective 2024); and long-term care (LTC) - $2,500 limit (effective 2026). In addition, the age 50 exception to the 10% early distribution penalty is extended to include public safety workers with at least 25 years of service. Corrections officers and private sector firefighters are added to the list of public safety workers who can take advantage of this exception.

These new exceptions may be helpful if you need early access to your retirement funds. However, use these exceptions as a last resort. Distributions will most likely still be taxable, and every dollar taken early is a dollar you won't benefit from at retirement.

Repayment of Qualified Birth or Adoption Distributions

The SECURE Act allowed individuals to receive penalty-free distributions from their retirement account in the case of birth or adoption. There was no time limit to repay these distributions. There is now a three-year repayment window.

RMD Penalty Changes

SECURE 2.0 reduces the penalty if you miss an RMD from a hefty 50% to 25%. Additionally, if you correct the missed RMD in a timely manner, the penalty is further reduced to 10%.

On its face this seems like a good thing. However, the 50% penalty was seldom enforced and often waived for those who sought relief. The new rules may lead to a smaller penalty, but more people may have to pay it. This could translate into bad news for retirees - but good news for Uncle Sam as the government collects more revenue.

Good Advice Is Essential

SECURE 2.0 added many changes to the retirement savings rules. How will this legislation affect you? New opportunities may exist to make contributions to your retirement accounts or to access retirement funds without penalty. Also, RMDs may be able to be delayed just a little bit longer.

Do you have questions? SECURE 2.0 means that now, more than ever, good advice is essential. A qualified financial advisor can help guide you through all the new rules and ensure you are best positioned to take advantage of the breaks...while avoiding any pitfalls.

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