SECURE ACT 2.0: *WHAT YOU NEED TO KNOW*

JUSTABOUT WEALTH MANAGEMENT

The SECURE 2.0 Act was recently signed into law, and along with it come many rule changes for retirement accounts. Read on to learn about some of the changes that might affect your accounts.

Required Minimum Distribution Changes

When the original SECURE Act was signed into law, required minimum distribution (RMD) rules were significantly changed for inherited accounts. The changes to RMDs in SECURE Act 2.0 are not as significant but will likely benefit many clients.

- In 2023, the RMD age increases to 73, and in 2033, it will increase again to 75. This rule affects those turning 72 in 2023—they will now be able to delay mandatory withdrawals for another year.
- RMDs will no longer be required for Roth 401(k)s beginning in 2024.
- The penalty for failing to take an RMD drops from 50% penalty of the amount not taken to 25%, and can drop to 10% if the remaining RMD is taken and a tax amendment is filed in a timely manner.
- A surviving spouse who is the beneficiary of the spouse's IRA can now elect to be treated as the decedent for tax purposes. This allows the individual to use the deceased spouse's birth date for RMD eligibility purposes. This new rule benefits survivors who are older than the spouse who passed away, allowing them to delay withdrawals and save on taxes.

Retirement Account Changes

- There are many rule changes for employer-sponsored retirement plans as well as Traditional and Roth IRAs. Here are some of the changes that we think you should know:
- There will be increased catch-up contributions for those age 60-63 in 401(k) plans: $10,000 annually (indexed for inflation). If a person earned more than $145,000 the previous year, the catch-up contribution would need to be made in a Roth account rather than a Traditional pre-tax account.
- Catch-up contribution limits in Traditional and Roth IRA accounts will also be increased for inflation beginning in 2024. The current limit of $1,000 has been in place since 2006.
- Employers can now provide employees the option to have matching contributions made on a Roth basis rather than an after-tax basis. Matching contributions will be taxable to the employee but also immediately vested.
- There will be an expanded exemption for penalty-free withdrawals from a retirement plan before age 59½. Up to $1,000 per year can be taken by anyone who experiences "unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses." Employees must wait three years to take another unless they pay back the previous withdrawal first.
- A new option for defined contribution retirement plans (401(k), 403(b), etc.) will be available starting in 2024 to help employees save for emergencies. Contributions of up to $2,500 annually will be allowed into a special Roth account specifically for emergency savings. The first four withdrawals each year will be tax- and penalty-free.
- Roth options will now be available for SEP and SIMPLE IRAs.
- Qualified Charitable Distribution annual limits will now be increased with inflation beginning in 2024. Donation options have expanded as well. Individuals can give $50,000 (out of the $100,000 current limit) in a one-time gift to Charitable Gift Annuities, Charitable Remainder Annuity Trusts (CRUTs), and Charitable Remainder Unitrusts (CRATs).

Additional Changes to Note

- 529 plan changes: After a 529 account has been open for 15 years, funds can be rolled over to a Roth IRA, but there is an annual limit for how much can be rolled over. Only the current contribution limit to an IRA can be rolled over each year ($6,500 in 2023). There is a lifetime limit of $35,000. Contributions (and earnings on those contributions) within the last five years are not eligible to be rolled over. Rollovers from a 529 plan count toward the annual contribution limit for IRAs.
- Beginning in 2024, employers will have a new incentive to offer younger employees. They will be able to match employee student loan payments, with the matching portion going to a retirement account. This is a way that younger employees can pay back their loans and at the same time save for retirement.

These are just a handful of the changes in the new SECURE Act 2.0. Many of these changes may not be applicable to most people, but if you have any questions about any of the provisions mentioned above or anything you have read elsewhere, we are always Justabout a phone call or email away!

Brian M. Cartier, CFP®
Financial Advisor