

HOW WILL THE SECURE 2.0 ACT AFFECT YOUR RETIREMENT?

New legislation could bring big changes for people saving for and living in retirement

Overview

When Congress passed the SECURE Act in 2019, the new legislation included significant changes for retirees. Now, after months of debate and deliberation, Congress has approved SECURE 2.0. While the new legislation builds on the 2019 changes benefiting Americans in their 70s and 80s, the 2022 version also includes provisions impacting individuals who are still working toward retirement.

What's included in SECURE 2.0 — and how could it affect your retirement? Let's take a look at a few of the highlights:

Required Minimum Distributions

Owners of qualified retirement accounts — such as an IRA or employer-sponsored workplace plan — must start taking required minimum distributions (RMDs) from these accounts at a certain age. In 2019, the original SECURE Act raised the age of required minimum distributions (RMDs) from 70½ to 72.¹

Now, SECURE 2.0 raises the age of your first RMD to age 73. That means that if you turn 72 in 2023, you can wait until 2024 to start taking RMDs.² Why does this matter? Not only will you be able to let the money in your account grow for another year, but distributions from qualified retirement accounts won't be counted as taxable income for another year.³

If you're still in your 60s and planning ahead, you may benefit even more from RMD changes. SECURE 2.0 further raises the age at which RMDs must begin to age 75 in 2033.⁴

Catch-up Contributions

In 2023, anyone over the age of 50 can save an additional \$7,500 annually to an employer-sponsored retirement plan, such as a 401(k) or 403(b).⁵ But if you're ages 62, 63 or 64 in 2023, the catch-up contribution amount increases to \$10,000 under the SECURE 2.01 Act. That means you could defer a total of \$32,500 into your employer-sponsored retirement account annually.⁶

The original SECURE Act, passed in 2019, brought about significant changes for retirement savers. The SECURE 2.0 Act expands upon some of those changes with the intention of making it easier for individuals to save for their retirement years.



Designated Roth Account Matching Contributions

Many employers offer designated Roth account options⁷ in certain qualified plans, such as Section 401(k) or Section 403(b) plans, but there has been a drawback: Employers were not permitted to deposit matching contributions into the designated Roth accounts. The SECURE 2.0 Act allows employers to make matching Section 401(k) plan contributions into the employee's Roth 401(k) account, potentially allowing for additional growth of tax-free retirement funds for the participant.

Automatic 401(k) Enrollment

If a company sponsors a retirement plan, eligible employees will be automatically enrolled in the plan and must opt out if they choose not to participate. The intent behind this provision is to encourage retirement savings among historically reluctant workers.

Student Loan Matching

Previously, employers only matched plan participants' contributions directly into their retirement plan. In 2024, if an employee makes qualified student loan payments, employers can make a matching contribution into their 401(k), 403(b) or SIMPLE IRA. Under the new rule, individuals don't have to make a choice between paying off student loans and saving for retirement. Instead, they can do both at the same time.

Part-time Workers and Retirement Plan Eligibility

The SECURE Act of 2019 allowed part-time workers to become eligible for their employer-sponsored 401(k) after three years of employment. Beginning in 2025, the SECURE 2.0 Act reduces the period to two years, provided the employee works at least 1,000 hours per year.⁸

529 College Savings Plan Rollovers

For 529 college savings plan owners, starting in 2024 you will be able to roll leftover funds into a Roth IRA tax- and penalty-free. Some limits apply, however: The 529 plan must be at least 15 years old, and you are limited to a lifetime rollover amount of \$35,000.⁹ There is an absolute annual limit on such rollovers equal to the regular Roth IRA contribution limit.



Final Thoughts

The passage of SECURE 2.0 is a good reminder that Congress can always pass legislation impacting how you save for retirement and how much you pay in taxes — both positively *and* negatively. Your financial advisor stays on top of these changes and understands how they may affect your current and future income. Contact your financial advisor to schedule a review and learn more about the potential impact of the SECURE 2.0 Act on your financial plan.

¹ IRS. Dec. 8, 2022. "Retirement Topics — Required Minimum Distributions (RMDs)." <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds>. Accessed Dec. 27, 2022.

² Ashlyn Brooks. Yahoo! Finance. Dec. 28, 2022. "The SECURE 2.0 Act and Your Retirement Savings: Expect to See These Big Changes." <https://finance.yahoo.com/news/secure-2-0-act-retirement-150042550.html>. Accessed Dec. 28, 2022.

³ IRS. Sept. 23, 2022. "Retirement Plan and IRA Required Minimum Distributions FAQs." <https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions>. Accessed Dec. 27, 2022.

⁴ Jeffrey Levine. Kitces.com. Dec. 28, 2022. "SECURE Act 2.0: Later RMDs, 529-to-Roth Rollovers, And Other Tax Planning Opportunities." <https://www.kitces.com/blog/secure-act-2-omnibus-2022-hr-2954-rmd-75-529-roth-rollover-increase-qcd-student-loan-match/>. Accessed Jan. 5, 2023

^{5,6} IRS. Dec. 8, 2022. "401(k) limit increases to \$22,500 for 2023, IRA limit rises to \$6,500." <https://www.irs.gov/newsroom/401k-limit-increases-to-22500-for-2023-ira-limit-rises-to-6500>. Accessed Dec. 27, 2022.

⁷ Greg Iacurci. CNBC. Dec. 16, 2022. "88% of employers offer a Roth 401(k) - almost twice as many as a decade ago. Here's who stands to benefit." <https://www.cnbc.com/2022/12/16/88percent-of-employers-offer-a-roth-401k-how-to-take-advantage.html>. Accessed Dec. 27, 2022.

⁸ Sarah O'Brien. CNBC. Dec. 23, 2022. "'Secure 2.0' clears Congress as part of omnibus appropriations bill, will bring more changes to U.S. retirement system." <https://www.cnbc.com/2022/12/23/secure-2point0-clears-congress-will-bring-changes-to-retirement-system.html>. Accessed Dec. 27, 2022.

⁹ Emerson Sprick, Rachel Snyderman and Shai Akabas. Bipartisan Policy Center. Dec. 20, 2022. "Secure 2.0 Is About to Pass. What Made It In?" <https://bipartisanpolicy.org/blog/what-made-it-in-secure-2/>. Accessed Dec. 27, 2022.

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