

Secure 2.0: What You Need to Know

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As we've [written about before](#), Congress in 2019 passed the biggest set of retirement savings policy reforms in a decade. It was called the Secure Act, shorthand for the official title of "Setting Every Community Up for Retirement Enhancement Act."

At the end of 2022, lawmakers expanded the original act with introduction of dozens of new provisions. Dubbed Secure 2.0, such sweeping changes were designed to boost the ability of more Americans — millennials as well as baby boomers — to build savings over a lifetime.

"Since it's so expansive, Secure 2.0 has introduced many new potential tax implications into the tax planning discussion," says John Dahlin, head of IFA Taxes. "Almost every U.S. taxpayer should probably at least be aware of what has changed and what that can mean for each individual's tax-filing situation."

Along with his accounting and tax planning colleagues at IFA, Dahlin has put together a list of changes ushered in by Secure 2.0 to help you sort through some of the major issues addressed by such legislation. But he stresses that before making any decisions related to the new act, taxpayers should consult with a tax and an estate planning professional. Here are some of the major changes he's bringing up with clients:

401(k) Catch-Up Contributions

Currently, individuals aged 50 or older can make catch-up contributions to their workplace retirement plan accounts. The limit for 401(k), 403(b) and similar employer-sponsored savings plans — which are adjusted each year based on the rate of inflation — is \$7,500 in 2023.

Of course, these catch-up contributions can be made in addition to regular 401(k) contributions allowed for all savers, regardless of age. Limits on those amounts are \$22,500 for 2023.

After enactment of Secure 2.0, however, starting in 2025 participants in qualified 401(k) or similar workplace retirement plans aged 60 through 63 can make contributions of up to the greater of \$10,000 or 150% of the regular catch-up amount. (Since the regular catch-up amount in 2023 is \$7,500, this would be \$11,250.)

Also, IFA's Dahlin — who is a certified public accountant (CPA) — points out that starting in 2024 employees with compensation of \$145,000 or more per year can only make catch-up contributions to a Roth 401(k) account. As a result, if an employer doesn't have a Roth option, under Secure 2.0 such a so-called highly compensated employee will not be allowed to make catch-up contributions.

In 2025, such a compensation number (\$145,000) will be indexed for inflation. Also, the new rule doesn't apply to Simple or SEP plans.

"It's important to remember that contributions for individuals into Roth 401(k) plans aren't done on a pre-tax basis," he adds. "The trade-off, though, is you typically won't be taxed on withdrawals in retirement."

RMD Dates/Rules Expanded

The starting age required to take a minimum distribution (RMD) from retirement savings accounts has been pushed back for many taxpayers. As a result, these changes mean:

- For those born between 1951-1959, the RMD age is pushed back to 73.
- Likewise, the RMD starting age is increased to 75 for those born in 1960 and later.
- For those born before 1951, the new act isn't likely to impact RMD start dates.

Beginning in 2024, Secure 2.0 will exempt Roth 401(k) savings from the RMD requirements. "This will make saving in a Roth, whether it's through an IRA or 401(k) account, more uniform in terms of tax treatment," says Dahlin. That's significant, he adds, "since many taxpayers choose to contribute to both."

The precise amount of an RMD is calculated each year by the IRS using an age-based formula. That total can be obtained through your IFA advisor or custodian such as Schwab or Fidelity.

Another key change: Effective 2024, a surviving spouse (who is a beneficiary) can elect to be treated as the decedent for RMD purposes. Dahlin warns that such elections should be treated as irrevocable "until we know otherwise."

Also worth keeping in mind, notes Dahlin: As it stands now, missing annual deadlines for making RMDs can wind up triggering a 50% penalty on withdrawals not made by such cut-off dates. Starting in 2023, Secure 2.0 creates opportunities to lower such a tax ding to 25%. (In certain situations — and pertaining to relatively specific circumstances — the law opens the possibility of late penalties being reduced to 10%.)

For more detailed information on current RMD strategies and penalties, see: "[Six Tips to Avoid End-of-Year Tax Headaches](#)."

"Even if you don't plan to start making RMDs for a few more years, it's probably a good idea to be proactive about reviewing these strategies before any deadlines hit," says Dahlin. "If nothing else, there are enough major changes in timing and structure of RMDs to make further discussions with your tax professional a wise tax planning tool."

Employer Matches in Roth Retirement Accounts

Pending updates in a retirement plan's back-office and related accounting systems, employees will be able to receive vested matching contributions to 401(k) and related retirement plan Roth accounts. Before Secure 2.0, employer matches were only allowed by the IRS on a pre-tax basis. "In the past, the employer's match has essentially been counted in Roth workplace retirement accounts each year as taxable income," says Dahlin. "By making this change, plan sponsors can now match an employee's contributions on a post-tax basis, which is the way individual Roth IRA assets are taxed."

Also, Dahlin points out it's important to remember that until 2024, RMDs are still going to be required for Roth accounts held in a workplace sponsored retirement savings plan. "The advantage for 401(k) account savers is that although Roth contributions can't be deducted to reduce taxable income on an annual basis," he adds, "these can grow tax-free and you can make tax-free withdrawals during retirement."

New Trust Options for Qualified Charitable Distributions (QCDs)

Starting in 2023, those age 70 1/2 and older can make a one-time qualified charitable distribution from a traditional IRA into a charitable remainder unitrust, charitable gift annuity and a remainder annuity trust. "Before this, you could only make a QCD directly to specific charities using a traditional IRA," says Dahlin. "The Secure Act expands the types of entities you can use for donations from your traditional IRA."

The current limit — which is capped at \$50,000 for 2023 — will be indexed for inflation going forward. The act also opens the possibility of counting such a QCD as part of any RMD total for the year. "But if you want to use a qualified charitable distribution taken from your IRA towards the annual RMD amount, you've got to do it by year's end," says Dahlin.

He adds: "All of these entities have to be funded exclusively by qualified charitable distributions."

Rolling Over 529 Plan Educational Savings

As part of the new act, after an account has been maintained for 15 years, your 529 plan assets can be rolled over to a beneficiary's Roth IRA account. Roth contribution limits, though, don't change. In other words, says Dahlin, "if you make a rollover from a 529 plan into a Roth, the new rule counts the rollover as a contribution to your Roth under the annual Roth contribution limits."

Also, the rollover has to be made directly to your Roth IRA account, wherever that's held. Dahlin emphasizes that any such transfer is "not only subject to the annual Roth contribution limit, but also a lifetime limit of \$35,000 per beneficiary" for 529 plan contributions. (As part of Secure 2.0, the lifetime limit of \$35,000 is set to be indexed to inflation in future years.) Also, he points out any beneficiary must have earned income.

With so many revisions in the U.S. tax code, Dahlin urges you to consult with your IFA wealth advisor before making any financial and estate planning changes.

Sole Proprietors and 401(k) Plan Dates

Starting in 2024, sole proprietors can establish new 401(k) retirement plans retroactively to the prior tax year. In the past, such changes had to be established before a calendar year's end.

Automatic Enrollment Requirement for Businesses

The act mandates that businesses implementing new 401(k) and 403(b) plans must automatically enroll eligible employees — at a contribution rate of at least 3% — starting in 2025.

Keep in mind, this doesn't impact any existing retirement plan accounts. In the future, however, Secure 2.0 also makes it easier for retirement plan sponsors to work with their

service providers to set up automatic portability to participants. "This is designed to make transferring of a worker's retirement assets more fluid when changing jobs and/or moving to a different retirement savings platform," says Dahlin.

Simple IRA Contributions

Starting in 2024, employers can make additional contributions to Simple IRA accounts. Please check with your IFA wealth advisor for more details.

Plan Sponsors and Emergency Savings Accounts

For so-called "non-highly compensated" employees, beginning in 2024 most 401(k) plan sponsors — as well as sponsors of similar defined contribution retirement plans — will be able to set up emergency savings accounts for plan participants. Under these new guidelines, someone could designate part of a paycheck to be automatically placed each month in such an emergency savings account.

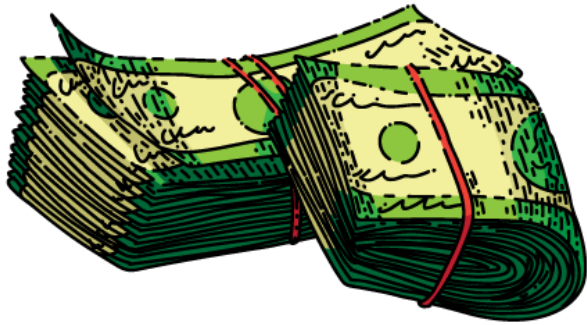
Also of note: Under Secure 2.0, such workplace emergency savings programs will be treated as Roth accounts. "But for plan participants with existing 401(K) Roth accounts, these emergency savings accounts will be treated as independent and separate accounts for tax purposes," says Dahlin.

The act does place limits, however, on how much an employee can sock away for emergencies. Although business owners are generally free to determine what sort of cap they want to establish for a worker's emergency savings account, Secure 2.0 sets a \$2,500 annual limit for each plan participant's emergency savings account. Additionally, someone's initial four withdrawals in a calendar year can be made on a tax free and penalty free basis.

Under the act, employers will also be allowed to match contributions made to a workplace sponsored emergency savings account. "The level of matching and eligibility for such matching will be tied to how sponsors set up their plan's specific rules and guidelines," says Dahlin.

He suggests anyone with questions about setting up emergency savings accounts get in touch with a fiduciary-minded advisor. In the case of IFA's clients, Shareen Balkey is head of Retirement Services. She can be reached directly at: shareen@ifa.com.

"The creation of an emergency savings option is another benefit that plan sponsors can offer to help workers save for short-term expenses and limit the need to dip into their long-term retirement savings," says Balkey.



Of course, these are just some of the approximate 100 provisions included in the Secure 2.0 legislation. At IFA, we welcome questions about how such reforms might impact your unique tax planning outlook. In fact, we strongly recommend that taxpayers seek input from a tax professional before making any tax planning decisions.

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Murray is a financial writer at Index Fund Advisors. Prior to joining IFA, he worked as a funds reporter for The Wall Street Journal, The Financial Times, Barron's and MarketWatch.