WHAT YOU NEED TO KNOW ABOUT SECURE ACT 2.0

CWA
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With the passage of the SECURE 2.0 Act, Americans will be able to strengthen their retirement funds and secure their financial stability in the long run. The bill includes solutions that will encourage companies to offer more plan options and make it easier for small businesses to provide retirement savings plans, helping ensure employees' retirement savings last a lifetime.

KEY PROVISIONS:

1 Automatic Enrollment in Retirement Plans *(Section 101)*

Starting in 2025 401(k) and 403(b) plan participants will automatically be enrolled in the plan once eligible to participate. The initial automatic contribution is at least 3%. Each year contributions increase by 1% until a goal of 10% is reached, but not more than 15%.

2 Saver's Match *(Section 103)*

To encourage savings, an eligible individual who makes a qualified retirement savings contribution is able to make a matching contribution. Starting in 2027, the government will provide 50% credit on savings up to $2,000 with a maximum $1,000 credit. Credit is available regardless if the taxpayer has an income tax liability.

3 Increasing the Required Minimum Distribution (RMD) Age *(Section 107)*

On January 1, 2023, the required minimum distribution age was increased from 72 to 73 and age 74 in 2033.

4 Increase in Catch-Up Contributions *(Section 109)*

In 2023, for those over 50, the retirement plan catch-up contribution limit is $7500. Starting in 2025, for those ages 60 to 63, the catch-up contributions will be increased to the greater of $10,000 or 50% more than the regular catch-up contribution amount in 2024. Starting after 2025, catch-up contributions will be indexed for inflation. Beginning in 2024, for an individual who attains age 50, IRA catch-up contribution will be indexed for inflation.

5 Student Loan Retirement Benefit *(Section 110)*

Allows plan sponsors the option to treat student loan payments as elective deferrals for the purposes of matching contributions to a retirement plan.

6 Relief from Early Withdrawal Tax Penalty *(Section 115)*

Up to $1,000 may be withdrawn per year, penalty-free, from a tax-preferred retirement account for an emergency with the option to repay the distribution within 3 years. No further distributions allowed during the repayment period unless the distribution is paid in full.

7 Ability to Rollover 529 Plan to Roth IRA *(Section 126)*

Beneficiaries of 529 college savings accounts will be permitted to rollover up to $35,000 over the course of their lifetime from any 529 account in their name to a Roth IRA. Rollovers are subject to annual contribution limits, and the 529 plan must have been open for more than 15 years.

8 Emergency Savings Account *(Section 127)*

Starting in 2024, employers can open an emergency savings account. Employees can save up to $2,500 in a Roth-style account. Any distributions will be treated like a qualified distribution from a Roth account (tax-free if requirements are met).

9 Annuities Inside 401(k) Plans *(Section 201)*

Removes the barriers to the use of annuities in qualified plans by exempting certain annuity features from actuarial tests that would otherwise prohibit their use.

10 Qualified Longevity Annuity Contract (QLAC) *(Section 202)*

The prior limit of 25% of income is eliminated. Individuals can contribute up to $200,000 to a qualified longevity annuity (QLAC) contract. This amount is indexed.

11 RMD Excise Tax Reduced *(Section 302)*

Reduces the penalty for failure to take required minimum distributions from 50% to 25%. Further, if corrected in a timely manner, the excise tax is reduced from 25% to 10%.

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KEY PROVISIONS:

12 Retirement Savings Lost & Found *(Section 303)*

The Department of Labor will create a national online searchable lost and found database for Americans' retirement plans.

13 Qualified Charitable Distributions (QCD) *(Section 307)*

Expands the IRA charitable distribution provision to allow for a one-time, $50,000 distribution to charities through charitable gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts, and indexes QCD contributions for inflation beginning after 2023.

14 RMDs for Roth 401(k) Accounts Eliminated *(Section 325)*

Starting in 2024, required minimum distributions will no longer need to be taken from Roth 401(k) accounts.

15 Pay for Long-Term Care Insurance Using Retirement Plan *(Section 334)*

Retirement plans can now distribute up to $2,500 annually to pay premiums for certain specified long-term care insurance contracts. Distributions will be exempt from the 10% early withdrawal tax. Goes into effect in three years.

16 Roth Contributions for SIMPLE and SEP *(Section 601)*

Roth contributions are now allowed for SIMPLE and SEP IRAs. Employer contributions and employee elective deferrals (if permitted) can be designated as Roth.

17 Roth Catch-Up Contributions *(Section 603)*

Starting in 2024, all catch-up contributions to qualified retirement plans are subject to Roth tax treatment; an exception is made for employees with compensation of $145,000 of less (indexed)

If you would like to discuss any of the above provisions and how they impact you, please don't hesitate to reach out to me to set up a meeting. As always, I am here for you.