SECURE 2.0: Key provisions & planning considerations

In late 2022 Congress passed an omnibus spending bill that included the SECURE 2.0 Act of 2022. This legislation builds on the original SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) that expanded access to retirement accounts, promoted participation, and preserved savings. While some changes will take effect in 2023, many will be phased in over the next few years. Here's a summary of key provisions within the new law.

Increase participation within retirement plans

- **Auto-enrollment requirement for new plans:** Beginning in 2025, new 401(k) and 403(b) plans must auto-enroll participants with a minimum deferral rate of 3% of salary but not more than 10%. Unless participants opt out, salary deferrals increase each year by 1% to a maximum of 15%. Exceptions apply for existing plans, employers with 10 or fewer employees, new businesses (less than three years in operation), church plans, and governmental plans.
- **Enhanced tax credit for start-up retirement plans:** Beginning in 2023, certain small businesses establishing new plans will be able to calculate the tax credit based on 100% administrative costs (increased from 50%) with an annual cap of $5,000. The tax credit is available for the first three years of the plan.

Increase retirement savings

- **Additional catch-up contributions at age 60:** Beginning in 2025, retirement plan participants can increase catch-up contributions at ages 60, 61, 62, and 63. The additional contribution is the greater of $10,000 or 150% of the catch-up contribution in place for 2025. The current catch-up contribution in retirement plans for those age 50 and greater is $7,500.
- Other provisions include indexing the IRA catch-up contribution limit for inflation (2024), higher contribution limits for SIMPLE IRAs (2024), and a Saver's Match (2027) calculated at 50% of a retirement plan or IRA contribution up to $2,000 for those below certain income limits (income phaseouts begin at $20,500 for single taxpayers, $41,000 for married couples filing a joint tax return).

Preserve retirement savings

- **RMD age increase:** Beginning this year, the age for required minimum distributions increases from 72 to 73. This means that the RMD age for those born from 1951 though 1959 is 73. The RMD age increases to 75 in 2033, meaning that those born in 1960 or later will not be required to take minimum distributions until reaching age 75.
- Other provisions include elimination of RMDs for designated Roth accounts (i.e., Roth 401(k)) beginning in 2024 and a decrease in the penalty for not taking an RMD. Effective immediately, the penalty is reduced from 50% of the RMD amount to 25%, and as low as 10% if the mistake is corrected in a timely manner.

Expand use of Roth accounts

- **SEP and SIMPLE Roth accounts:** Beginning this year, the option to contribute to Roth accounts will be available within SEP and SIMPLE plans.
- **Roth option for employer contributions:** If the plan allows, participants may direct employer-matching or other employer contributions to a designated Roth account instead of a traditional pre-tax account.
- **Requirement for catch-up contributions into a Roth account:** For those with wages exceeding $145,000 in the previous year, catch-up contributions must be directed into a designated Roth account within the retirement plan, instead of having the option of making those contributions into a traditional, pre-tax account (beginning in 2024).

Provide easier access to retirement savings

- Emergency withdrawals and accounts: Beginning in 2024, a distribution of up to $1,000 per year can be withdrawn, not subject to the 10% early withdrawal penalty. Subsequent emergency withdrawals are not permitted unless the amount has been repaid into the retirement account. Additionally, employers will have the option of providing an emergency savings account within a retirement plan which allows a participant to accumulate up to $2,500 in a separate account. Once the cap has been reached, subsequent contributions are directed to a designated Roth account within the plan. Each year the participant can request up to four withdrawals not subject to early withdrawal penalties or fees.
- The legislation creates more exceptions to the 10% early withdrawal penalty, such as in the case of a terminal illness or domestic abuse (lesser of $10,000 or 50% of plan balance). Additionally, plan participants facing a qualified federal disaster will have increased penalty-free access to retirement plan savings or loans.

Other key provisions

- Enhancements to Qualified Charitable Distributions (QCDs): Beginning in 2024, the QCD limit (currently $100,000) is indexed for inflation. Additionally, effective this year an IRA owner can make a one-time, tax-free distribution of up to $50,000 to a charitable trust or charitable gift annuity for the sole benefit of the account owner or spouse.
- Roth IRA rollover option for unused 529 funds: Beginning in 2024, up to $35,000 in 529 funds (over lifetime) can be contributed to a Roth IRA in the name of the 529 beneficiary. The 529 must open for at least 15 years and 529 contributions (and related earnings) within the last five years are not eligible for rollover. Rollover amounts may not exceed annual Roth IRA contribution limits (including other IRA contributions) and the beneficiary must have earned income. However, the income restrictions on making Roth IRA contributions do not apply to these contributions.
- Qualified student loan payments may be considered salary deferrals for employer matching purposes: Beginning in 2024 employers have the option of making matching contributions to accounts within retirement plans (including SIMPLE IRAs) based on participants paying off student loans.

Planning considerations

- IRA owners benefiting from the increase in the RMD age may consider using the “extra” years available before RMDs apply to donate funds to charities using QCDs (beginning at age 70 ½) or make Roth IRA conversions
- Plan participants aged 60 and older can consider making additional catch-up contributions
- Plan participants in lower tax brackets may want to consider directing employer-matching contributions into a designated Roth account
- Parents and grandparents may consider over-funding 529 accounts knowing that unused amounts could provide a way to jumpstart retirement savings into a Roth IRA for 529 beneficiaries
- Business owners who are not sponsoring a retirement plan should consider taking advantage of the enhanced tax credits available to establish a new plan

Sources: Consolidated Appropriations Act, 2023, DIVISION T, SECURE Act of 2022, Senate Finance Committee, SECURE 2.0 Section by Section Summary. Based on current interpretation of the legislation, subject to change.