

SECURE Act 2.0 Notes and Highlights

Overview of the Changes

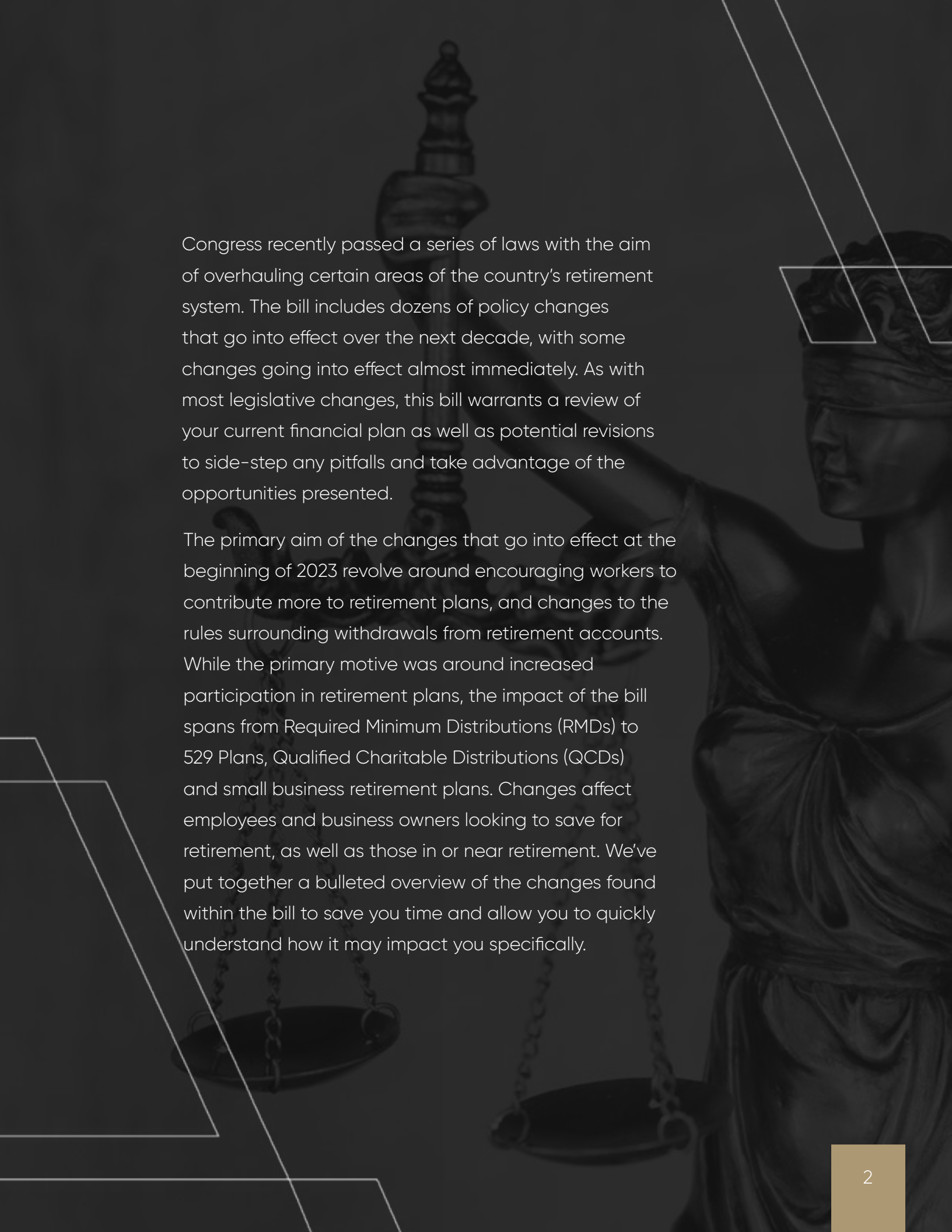


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Congress recently passed a series of laws with the aim of overhauling certain areas of the country's retirement system. The bill includes dozens of policy changes that go into effect over the next decade, with some changes going into effect almost immediately. As with most legislative changes, this bill warrants a review of your current financial plan as well as potential revisions to side-step any pitfalls and take advantage of the opportunities presented.

The primary aim of the changes that go into effect at the beginning of 2023 revolve around encouraging workers to contribute more to retirement plans, and changes to the rules surrounding withdrawals from retirement accounts. While the primary motive was around increased participation in retirement plans, the impact of the bill spans from Required Minimum Distributions (RMDs) to 529 Plans, Qualified Charitable Distributions (QCDs) and small business retirement plans. Changes affect employees and business owners looking to save for retirement, as well as those in or near retirement. We've put together a bulleted overview of the changes found within the bill to save you time and allow you to quickly understand how it may impact you specifically.

Raising the Required Minimum Distribution (RMD) Age

The new bill again increases the age when retirees must begin drawing from their tax deferred retirement accounts. It is important to note that individuals who have already started their RMDs can't stop them. The changes are highlighted below:

Secure Act 2.0 Updated RMD Ages

| Birth Year | RMD Age |
|----------------------------|---------|
| Born 1950 or Earlier | 72 |
| Born Between 1951 and 1959 | 73 |
| Born 1960 or Later | 75 |

Qualified Longevity Annuity Contracts and Assistance with Longevity Planning

The new legislation allows more individuals to take advantage of [Qualified Longevity Annuity Contracts \(QLACs\)](#) as a way to help lower the chances of running out of money in retirement.

- 401(k) or IRA owners can use up to \$200,000 from their account to buy the annuity (current limit is \$145,000 or 25% of account, whichever is less)
- The bill also includes provisions for some penalty free withdrawals for long term care insurance premiums

Unused 529 Plan Transfers

The bill includes language that allows tax and penalty-free rollovers from overfunded 529 college savings plans, albeit with some limitations, which include:

- The account has to be in existence for 15 years
- Transfers must be made to the 529 plan's beneficiary (e.g. the child/student), not the owner (e.g. a parent)
- The Lifetime maximum for transfers is \$35,000
- Transfers are subject to [Roth IRA contribution limits](#), so they may have to be made over a number of years

Updates and Changes to Roth Retirement Accounts

The legislation aligns rules for Roth accounts in employer-sponsored retirement plans (e.g., 401(k)s, 403(b)s) with individual Roth IRAs. The new rules:

- Eliminate RMDs for these accounts beginning in 2024
- Allows for a Roth version of [SEP](#) and [SIMPLE IRA](#) accounts beginning in 2023
- Employers can now make matching contributions and non-elective contributions to Roth accounts as well as pre-tax accounts

Increased Qualified Charitable Contribution (QCD) Limits

Retirees are allowed to donate all, or part, of their required minimum distributions from their retirement accounts [directly to charity](#). The age of eligibility remains at 70 ½, with changes to the previous \$100,000 QCD limit, including:

- \$100,000 limit will be indexed to inflation starting in 2024
- Age threshold remains at 70 ½ despite RMD age being pushed to 75
- Provides one-time ability to make a QCD of \$50,000 to a [Charitable Remainder Unitrust \(CRUT\)](#) or [Charitable Remainder Annuity Trust \(CRAT\)](#)

Increased Retirement Saving Catch-up Contributions

The primary aim of the bill was to increase the amount savers can put away for their futures by increasing their [catch-up contributions](#) into retirement accounts after they turn age 50. Changes include:

- Catch-up contributions for Traditional and Roth IRAs will be subject to cost-of-living adjustments (COLAs) beginning in 2024, increasing the current \$1,000 limit with inflation going forward
- 401(k) and similar plan catch-up contributions will also be increased from \$7,500 to \$11,250 a year for people who are age 60-63 beginning in 2025. All catch-up contributions will be subject to Roth (post-tax) treatment for those making \$145,000 and up beginning in 2024

Student Loan Payment Match in Retirement Accounts

The SECURE Act 2.0 allows employers to make matching contributions to an employee's 401(k) or 403(b) plan even if the workers can't contribute due to monthly student loan payments.

- Student loan payments will be treated as "elective deferrals" for employer matching purposes in workplace retirement accounts
- Allows student loan borrowers to benefit from an employer match even if they can't afford to contribute to their retirement plan

Auto-enrollment for New Workplace Retirement Plans starting in 2025

The bill requires employers starting new retirement plans to automatically enroll their employees into the plan.

- Auto-enrollment starts at 3% of pay and can't exceed 10%
- The contribution amount will automatically increase by 1% each year

Increased Access to Employer Retirement Plan Savings Accounts

Employers will now have the option of auto-enrolling their employees making \$150,000 or less in savings accounts that are linked to their employer-provided retirement savings plans, such as 401(k)'s and 403(b)'s.

- Employees can now save up to \$2,500 into a rainy day Roth account
- If withdrawn, the savings account money would come out tax free and free of the normal 10% penalty for early withdrawals
- Additional contributions will be invested within the retirement accounts

Small Business Retirement Plan Changes and Updates

The legislation brings changes to a number of small business retirement plans in the form of additional Roth (post-tax) options and decreases the cost and administrative burden of setting up a retirement plan through the use of a tax credit.

- Single owner/employee businesses now have until the tax-filing deadline in the following year to set up and fund a Solo 401(k), including business tax return extensions
- Small businesses can claim a tax credit to help offset the administrative costs associated with setting up and running a retirement plan
- Roth options are now available for SEP and SIMPLE IRAs

SECURE Act 2.0

2023

- RMDs pushed back to age 73 for individuals born between 1951-1959
- RMDs pushed back to 75 for those born 1960 and later
- Roth SEP and SIMPLE IRAs Allowed
- Penalty for missing RMDs reduced

2025

- Additional Catch-Up contributions for ages 60-63
- Auto-enrollment required for certain new retirement employer plans

2024

- 529 to Roth Transfers can begin
- RMDs from Roth plans Eliminated
- QCD Amounts linked to inflation
- Employer Sponsored Emergency Savings accounts begin
- Surviving Spouses allowed to use deceased spouses age to calculate RMDs
- New SIMPLE Rules
- Student Loan payments treated as elective deferrals for employer match
- Solo 401(k) can be established up to tax deadline

2026

- Expanded disability eligibility requirements for ABLE accounts

- S Corp Stock Sales to ESOP Eligible for 10% gain deferral

- Savers credit replaced by savers match

2028

2027

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