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How Did the SECURE ACT 2.0 Change Retirement?

SECURE 2.0 brings many updates, but let's focus on one significant change: the age for required minimum distributions (RMDs) from retirement accounts. Did you know that the age has increased to 73? It's scheduled to rise to 75 starting in 2033, pending action from Congress.[1]

How Does this Change Affect Your Retirement Strategy?

If you're already 72, you must continue taking distributions. However, you can revisit your approach if you turn 73 this year.

Are you familiar with the SECURE Act (and the updated SECURE Act 2.0) and its impact on your retirement?

Passed in 2019, the SECURE Act was the most substantial retirement legislation in over a decade. It contained changes designed to help investors save more and be better prepared for the future.

Congress passed SECURE 2.0 in 2023 to build on the popular aspects of the SECURE Act.

Individual Retirement Account (IRA) Catch-Up Contributions

Are You Taking Full Advantage of Catch-Up Contributions in Your IRA?

IRA catch-up contributions, currently limited to $1,000 for people aged 50 and over, will be indexed to inflation, meaning they could increase yearly based on federally determined cost-of-living increases.[2]

New: Rollovers from 529s to Roth IRAs

Tax-free and penalty-free rollovers from 529 accounts to Roth IRAs will be allowed under certain conditions. Beneficiaries of 529 accounts who did not use all of the assets for education will be permitted to roll over up to $35,000 (lifetime limit); this will be subject to Roth IRA annual contribution limits, and the 529 account must have been open for over 15 years.[3]

A 529 plan is a tax-advantaged college savings plan. Before you choose a plan, it's essential to consider the state tax treatment and any associated fees and expenses. The availability of a state tax deduction will depend on your state of residence, as state tax laws and treatment may vary from federal tax laws. If you make nonqualified distributions, earnings will be subject to income tax and a ten percent federal penalty tax.

Roth IRA distributions must meet a five-year holding requirement and occur after age 59½ to qualify for tax-free and penalty-free earnings withdrawals. Tax-free and penalty-free withdrawals can be taken under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Retirement Plans and Personal Emergencies

Have You Ever Needed to Withdraw from Your Retirement Plan for an Emergency?

Distributions from retirement plans for personal emergencies will be allowed penalty-free. You will be allowed one distribution per year of up to $1,000, with the choice to repay the distribution within three years. A person can only take the distribution annually if the original amount is repaid. Otherwise, it's every three years.[3]

Potential Retirement Incentives for Employees with Student Debt

Did You Know Your Student Loan Payments Could Help You Save for Retirement?

Employers can "match" employee student loan payments with matching payments to a retirement account, giving workers an attractive employee benefit and an extra incentive to save for retirement while paying off educational loans.[2]

Roth Plans and RMD Changes

Are you aware of the new RMD exemptions for Roth 401(k) accounts?

Roth accounts in employer retirement plans will be exempt from the RMD requirements.[4]

Once you reach age 73, you must begin taking RMDs from traditional IRAs under most circumstances. Withdrawals from traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10 percent federal income tax penalty.

Much like those from Roth IRAs, Roth 401(k) distributions must meet a five-year holding requirement and occur after age 59½ to qualify for tax-free and penalty-free withdrawal of earnings. Tax-free and penalty-free withdrawals can also be taken under certain other circumstances, such as the owner's death. Employer matching is pretax and is not distributed tax-free during retirement.

RMD Changes to be Aware of

Have You Ever Needed to Withdraw from Your Retirement Plan for an Emergency?

Required Minimum Distribution changes in SECURE and SECURE 2.0 may impact retirees, spouses, and beneficiaries. The original SECURE Act adjusted the distribution rules, including changing RMDs from age 70½ to 72.

SECURE 2.0 makes even more changes to the RMD rules.

The RMD age changed to 73 years in 2023 and will change to 75 years in 2033. The chart below highlights these changes.[3,5]

If a participant turns age	In the year	Then RMDs must begin by
72	2022	April 1, 2023
73	2024	April 1, 2025
73	2025 – 2031	April 1 of the following year
74	2033*	April 1, 2035
75	2035 and later	April 1 of the following year

* SECURE 2.0 contains an error regarding the effective date to transition from the RMD age of 73 to 75.

The above is a best guess as to how this might be corrected by Congress when they pass technical amendments to SECURE 2.0. This schedule is based on current legislation and may be subject to revision without notice and may not materialize.

Source: Foley.com, February 15, 2023.

Important Considerations

What Changes in SECURE 2.0 are Most Relevant to Your Retirement Strategy?

Once you reach age 73, you must begin taking RMDs from traditional IRAs. Withdrawals are taxed as ordinary income and may incur a 10% federal penalty if taken before age 59½.

Do You Understand the Tax Implications of Your 529 Plan?

A 529 college savings plan offers tax advantages, but state tax treatment varies. Always consider fees, expenses, and state-specific tax laws.

This ebook is for informational purposes only and is not a replacement for real-life advice. Consult your tax, legal, and accounting professionals before modifying your college strategy due to the new provisions of 529 plans.

Are You Meeting the 5-Year Holding Requirement for Roth IRA Withdrawals?

Roth IRA distributions must meet a 5-year holding requirement and occur after age 59½ to qualify for tax-free and penalty-free withdrawals.

Professional Guidance

Feeling Overwhelmed by the Changes in SECURE 2.0?

This is a lot to absorb, for sure! There are nuances and complexities to SECURE 2.0 that may impact your retirement preparation. Some changes may be for the better, whereas others may create additional hurdles for you and your heirs. As with most financial issues, it all depends on your situation and circumstances.

Do You Need a More Personalized Approach?

We have taken the time to understand the new rules' range and scope and can provide additional guidance if you want clarification. We also have additional resources to help if you have more nuanced questions. As always, we are here to help.

Ready to Revisit Your Retirement Strategy?

Contact us today to schedule a consultation. We can show you a strategy to help you make the most of SECURE 2.0's changes. Let's have a conversation about your future.

Have questions about SECURE 2.0? We're here to help!

Reach out now for more information.

SOURCES

1. Fidelity.com, December 23, 2022
2. Fidelity.com, November 2023
3. Ascensus.com, May 24, 2023
4. ASPPA.org, January 11, 2023
5. Foley.com, February 15, 2023

Disclosures

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