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What SECURE 2.0 means for your clients

By Komal Motwani

SECURE 2.0 was signed into law on Dec. 29. What does it mean for your clients? Here are a few highlights.

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Required minimum distributions. The original SECURE Act, which became law in 2019, raised the required minimum distribution age from 70 ½ to 72 years. The SECURE 2.0, effective Jan. 1, further increased the first year RMD age to 73 years. Your clients turning 72 in 2023 will now have to take their first year RMD in 2024, although for their first year RMD they will have until the April 1, 2025, to satisfy the requirements. With this caveat: If they choose to wait and take their first year RMD in the following year – 2025 - now they must take two RMDs in 2025, the second one by Dec. 31, 2025.The law further required the RMD age to increase again, to 75 years in 2033.

Currently, if a client fails to take RMDs in a timely manner, then the RMD amount not distributed is subject to 50% penalty. Beginning in 2023, this excise duty will be lowered to 25% and potentially could be further reduced to 10% if corrected in an appropriate timeframe.

Another beneficial attribute included in the SECURE 2.0 is that starting in 2024, participants will be exempt from taking RMDs from their Roth employer-sponsored plans.

Increased catch-up contributions and indexing IRA catch-up contributions. In 2022, clients ages 50 and older were able to add another $6,500 to their employer-sponsored retirement plans, and SIMPLE IRA and SIMPLE 401(k)s were permitted $3,000 annual catch-up contributions. The new law now permits clients to add the greater of $10,000 ($5,000 for SIMPLE Plans) or 150% of current regular catch-up contribution in 2025 for clients who have attained age 60, 61, 62, 63 in 2025. The increased amounts are indexed for inflation after 2025.

In addition, beginning in 2024, catch-up contributions must be made on a Roth basis for the participants who were paid compensation of $145,000 or more in the prior year (indexed for inflation).

Also starting in 2024, the IRA catch-up contribution ($1,000) for those 50 years and older will be indexed for inflation.

529-Roth IRA transfers. Section 529 plans are earmarked for college expenses. Beginning in 2024, 520 beneficiaries can roll over up to a $35,000 lifetime cap into their Roth IRAs. The rollovers are subject to annual IRA contribution limits and the 529 accounts must have been opened for more than 15 years.

Auto enrollment. Beginning in 2025, employers are required to auto enroll eligible employees to the new 401(k) or 403(b) plans. The initial automatic enrollment rate is 3% but not exceeding 10% with an annual increase of 1% thereafter until it reaches 10% or maximum up to 15%.

SIMPLE and SEP Roth IRAs. Starting 2023, SIMPLE plans can accept employee Roth contributions. In addition, the employers of SEP plans can allow employees to treat the SEP contribution as Roth contributions.

Employer matching Roth contributions. The participants can receive matching Roth contributions in their employer-sponsored plan. This goes into effect in 2023.

Matching contributions for student loan payments. SECURE 2.0 permits employers to make matching qualified student loan repayments contributions under a 401(k), 403(k) and some 457(b) plans. It states that an employer can choose to make contribution to an employee account matching to the student loan payment as if the employee had contributed to the plan instead. This new rule goes into effect in 2024.

Emergency withdrawals from 401(k) and IRAs. Generally, withdrawals from a 401(k) or IRA before age 59 ½ can be subject to 10% penalty and taxes. SECURE 2.0 specifies emergency expenses for any unforeseeable or immediate expenses up to $1,000 (per year) can be withdrawn from the retirement accounts without paying 10% penalty. Taxes will still be owed on these distributions. There are other nuances to this rule.

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