Secure Act 2.0: Key Provisions

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The Secure Act (Setting Every Community Up for Retirement) of 2019 became law in December 2019, and it enacted changes such as raising the minimum age for RMDs and expanded access to tax-advantaged retirement saving. Secure 2.0 is follow-up legislation signed into law in December 2022 as part of the Omnibus spending bill. In this article, Senior Investment Advisor Matt Sampson, CFP®, shares some key provisions of Secure 2.0 that everyone should be aware of.

Required Minimum Distribution (RMD) Changes

The Secure 2.0 Act creates a new two-tiered RMD age system, pushing back the minimum age for RMDs for retirees turning 73 in 2023 and beyond:

Birth year	Change
1950 and earlier	no change, RMD = age 72
1951-1959*	RMD = age 73
1960 and later*	RMD = 75

*Note: Due to a technical error, a person born in 1959 will both turn 73 before 2033 and turn 74 after 2032, but this is expected to be corrected prior to that time.

This change means that RMDs are slightly delayed for those born after 1951, shortening the time that distributions are required.

Additionally, the penalty for a missed RMD will be reduced from 50% to 25% of the missed RMD, (with further reduction to 10% if the issue is rectified during the "correction window.")

These changes are a reminder of the importance of being strategic about how you manage your taxable income in retirement.

Roth-Related Changes

The Secure 2.0 Act seems to be encouraging Roth savings with a variety of positive changes and incentives.

RMDs are eliminated for Roth 401(k)s, Roth 403(b)s, and Designated Roth Accounts (DRAs), effective beginning in 2024. This brings these types of accounts closer to parity with Roth IRAs, which already have no RMD requirement.

Effective immediately, Roth options are now available for SEP & Simple IRAs. Though effective right away, implementation may not happen immediately.

One of the most significant changes is that employer matching contributions are now eligible as Roth contributions. For employers who choose to make this available, the match amount will be included in the employee's gross income and taxed, but qualified withdrawals will be tax-free. This applies only to matching and non-elective contributions, not to profit sharing.

Catch-up Contributions

Starting in 2024, high wage earners (over $145,000/year) must make any retirement plan catch-up contributions into a Roth account rather than a pre-tax account.

The Secure 2.0 Act also increases the limit for catch-up contributions beginning in 2025. Retirement plan participants aged 60 through 63 will be able to make catch-up contributions of the greater of either:

- $10,000 indexed for inflation, or
- 150% of the regular catch-up contribution limit

Though it's a limited (and somewhat confusing) rule, it will be a significant benefit for those savers who are eligible.

College Savings and College Debt

Secure 2.0 contains provisions to help students both pay off debt and save for retirement. One very significant changes is a direct 529-to-Roth transfer, in which assets in a 529 plan may be transferred to a Roth IRA in the name of the beneficiary. This is a significant opportunity for families with overfunded 529 accounts. The annual transfer is limited to the annual IRA contribution limit, with a maximum lifetime transfer amount of $35,000. In order to be eligible, the 529 must have been held for at least 15 years, and any contributions made within five years are ineligible for transfer. Lastly, the beneficiary must have compensation (be working).

Also for students, beginning in 2024, employers will be able to match qualified employee student debt payments with matching payments into a retirement account. For employees who are prioritizing paying off student loans before saving for retirement, this means they no longer have to miss out on their employer's matching contribution.

Qualified Charitable Distributions (QCDs)

Qualified Charitable Distributions makes it possible for a taxpayer to make a charitable gift directly from their IRA, thus never becoming taxable income. The annual limit for QCDs is $100,000 for individuals and $200,000 for married couples; the Secure 2.0 Act will index this maximum for inflation beginning in 2024.

Secure 2.0 also provides the option for QCDs to fund Charitable Remainder Unitrusts (CRUTs), Charitable Remainder Annuity Trusts (CRATs), and Charitable Gift Annuities (CGAs). The maximum for each of these is $50,000, with the income beneficiaries being limited to the account owner and spouse. Distributions directed toward CRUTs and/or CRATs will be taxable as ordinary income. Charitable trusts often carry added complexity and cost; charitable gift annuities may be more attractive options to consider given their comparative simplicity.

Conclusion

The Act is quite extensive; this is just a short list of some of the most pertinent and relevant provisions. Of course, there were also several items that didn't make it into the final law, such as limits on backdoor Roth strategies and income limits for Roth conversions. We'll continue to keep you updated on any further legislation or regulatory changes that may affect your financial plan.

If you have any questions or would like to review your financial plan in light of the Secure 2.0 changes, please reach out to your Arnerich Massena advisor.