Retirement Investors Get a Boost from Washington

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Included in the $1.7 trillion omnibus spending legislation passed by Congress and signed by President Biden at the end of 2022 were several provisions affecting work-sponsored retirement plans and, to a lesser degree, IRAs. Dubbed the SECURE 2.0 Act of 2022 after the similarly sweeping Setting Every Community Up for Retirement Enhancement Act passed in 2019, the legislation is designed to improve the current and future state of retiree income in the United States.

What Does the Legislation Do?

There are several pieces to this new legislation. The following is a brief summary of some of the most notable initiatives. All provisions take effect in 2024 unless otherwise noted:

- **Later age for required minimum distributions (RMDs).** The 2019 SECURE Act raised the age at which retirement savers must begin taking distributions from their traditional IRAs and most work-based retirement savings plans to 72. SECURE 2.0 raises that age again to 73 beginning in 2023 and 75 in 2033.

- **No RMDs from Roth 401(k) accounts.** Bringing Roth 401(k)s and similar employer plans in line with Roth IRAs, the legislation eliminates the requirement for savers to take minimum distributions from their work-based plan Roth accounts.

- **Higher catch-up contributions.** The IRA catch-up contribution limit will be indexed annually for inflation, similar to work-sponsored catch-up contributions. Also, starting in 2025, people age 60 to 63 will be able to contribute an additional minimum of $10,000 for 401(k) and similar plans (and at least $5,000 extra for SIMPLE plans) each year to their work-based retirement plans. Moreover, beginning in 2024, all catch-up contributions for those making more than $145,000 will be after-tax (Roth contributions).

- **Higher limits and looser restrictions on qualified charitable distributions from IRAs.** The amount currently eligible for a qualified charitable distribution from an IRA ($100,000) will be indexed for inflation. In addition, beginning in 2023, investors will be able to make a one-time charitable distribution of up to $50,000 from an IRA to a charitable remainder annuity trust, charitable remainder unitrust, or charitable gift annuity.

- **Roth matching contributions.** The new law permits employer matches to be made to Roth accounts. Currently, employer matches must go into an employee's pre-tax account. This provision takes effect immediately; however, employers may need to amend their plans to include this feature.

- **Automatic enrollment and automatic saving increases.** Beginning in 2025, the Act requires most new work-sponsored plans to automatically enroll employees with contribution levels between 3% and 10% of income, and it automatically increases their savings rates by 1% a year until they reach at least 10% (but not more than 15%) of income. Workers will be able to opt out of the programs.

- **Matching contributions for qualified student loan repayments.** To assist employees who may not be able to save for retirement because they are overwhelmed with student debt and are missing out on available matching contributions for retirement plans, SECURE allows them to receive matching contributions by reason of their student loan repayments.

- **New exceptions to the 10% early-withdrawal penalty.** Distributions from retirement savings accounts are generally subject to ordinary income tax. Moreover, distributions prior to age 59½ also may be subject to an early-withdrawal penalty of 10%, unless an exception applies. The law provides for several new exceptions to the early-withdrawal penalty, including an emergency personal expense, terminal illness, domestic abuse, to pay long-term care insurance premiums, and to recover from a federally declared disaster. Amounts, rules, and effective dates differ for each circumstance.

- **More part-time employees can participate in retirement plans.** The SECURE Act of 2019 required employers to allow workers who clocked at least 500 hours for three consecutive years to participate in a retirement savings plan. Beginning in 2025, the new law reduces the second component of that service requirement to just two years.

- **529 rollovers to Roth IRAs.** People will be able to directly roll over up to a total of $35,000 from 529 plan accounts to Roth IRAs ***for the same beneficiary***, provided the 529 accounts have been held for at least 15 years. Annually, the rollover amounts would be subject to Roth IRA contribution limits.

These provisions represent just a sampling of the many changes that will be brought about by SECURE 2.0. We look forward to providing more details and in-depth analysis applying to both individuals and business owners as part of our ongoing service to our clients.

Sources: The Wall Street Journal, Bloomberg, the SECURE 2.0 Act of 2022, Thomson Reuters Federal Tax Update.

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