SECURE 2.0 Act of 2022 – A Summary of Key Provisions

On December 29, 2022, President Joe Biden signed SECURE 2.0 into law as part of the Consolidated Appropriations Act, 2023. SECURE 2.0 builds upon and expands the work that was begun with the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019.

Its provisions are designed to expand access to retirement plans, increase retirement savings and simplify plan operations. Some provisions became effective immediately and others will be phased in between 2023 and 2033.

Much of SECURE 2.0 speaks to workplace retirement plan sponsors and administrators. That is beyond the scope of this article.

Here we provide a brief sampling of what we believe will be most pertinent for our individual clients.

For those who are still working:

- Employees may request that employer contributions and matching be designated as Roth.
- SIMPLE and SEP IRA (Individual Retirement Account) funding can also be designated as Roth.
- Pre-age 59 ½ distributions waive the 10% penalty if due to a federally declared disaster (up to $22,000 from an IRA or qualified employer plan). This is retroactive to January 26, 2021.

For those who are retired:

- The Required Minimum Distribution (RMD) age has increased from 72 to 73. In 2033, it will increase to age 75.
- The penalty for failing to take an RMD is now 25% of the RMD amount (it was previously 50%). Penalties are reduced to 10% if the correction is timely.
- The Qualified Charitable Distribution (QCD) lifetime limit of $100,000 will be inflation-adjusted.

Additional changes to come:

2024

- 529 College Savings Plan balances may be transferred to a Roth IRA after 15 years. Transfers count towards the annual Roth contribution limit and the lifetime transfer limit is $35,000.
- Employees making student loan repayments may be eligible to receive an employer match even if the employee is not contributing to the workplace retirement plan.
- Catch-up contributions to qualified plans for employees age 50+ must be on a Roth basis if the employee earned over $145,000 in the prior year.
- Required Minimum Distributions from Roth 401k's and Roth 403b's will no longer be required and will mimic the Roth IRA rules.
- Surviving spouses who inherit a qualified retirement plan may elect to claim RMDs based on the age of the decedent rather than their own, if desired.
- Individual Retirement Account catch-up contributions for those ages 50+ will be inflation-adjusted in $100 increments.

2025

- Employees will be automatically enrolled if an employer begins a new workplace retirement plan after December 29, 2022. Employees may opt out if they choose.
- Employees between ages 60-63 may contribute up to the greater of $10,000 or 150% of their regular catch-up amount as an increased catch-up contribution (to be indexed for inflation).

SECURE 2.0 is a monumental piece of legislation and it will take financial firms some time to implement its many provisions. Some of its provisions are mandatory, while others are optional and may be added at employer discretion.

We have provided this summary to the best of our knowledge at this time, but we expect clarification and amendments to follow. We will be watching for guidance from Internal Revenue Service (IRS) and Department of Labor (DOL) in the months and years to come.

An upcoming SECURE 2.0 webinar is also in the works, so stay tuned. If you'd like to learn more in the meantime, the Senate Finance Committee has prepared a summary document.

As always, we encourage you to stay close to your financial, tax, and legal teams for details that apply to your specific situation.