Weekly Market Update – January 19, 2023

Secure Act 2.0 Additional Notes

Important Provisions of the SECURE Act

Before we dive in, understand that SECURE Act 2.0 is over 20,000 words long. That means there isn't room to cover every aspect of the law, and many won't apply to you anyway. So, what follows is a brief overview of the provisions that could affect your finances.

Changes to RMDs[2]

One of the most notable changes from the original SECURE Act was raising the age at which retirees need to take required minimum distributions or RMDs. SECURE Act 2.0 raises the age again. Beginning on January 1 of this year, retirees may now wait until age 73 (up from age 72). This is important because it gives retirees an additional year to benefit from the tax advantages that come with IRAs before making mandatory withdrawals. (Note that anyone who turned 72 last year will still need to continue taking RMDs as previously scheduled.)

Per the new law, the RMD age will increase to 75 beginning in 2033.

Another noteworthy change is the penalty applied to those who fail to take their RMD or don't withdraw enough. Previously, the penalty was 50% of what the retiree should have withdrawn. Beginning this year, that penalty has now been reduced to 25%. And if the mistake is corrected within the proper "Correction Window," it will be reduced further to 10%.

The Correction Window is usually defined as beginning January 1st of the year following the year of the missed RMD and ending when a Notice of Deficiency is mailed to the taxpayer or penalty is assessed by the IRS.

Finally, the law eliminates the need to take RMDs for Roth IRAs that are inside qualified employer plans. This means that if a retiree owns a Roth IRA through their old employer, they need never make mandatory withdrawals during their lifetime. This change begins in 2024.

(Note, of course, that regular Roth IRAs not part of an employer plan were never subject to RMDs, to begin with, so this change does not apply.)

Changes to Catch-Up Contributions[2]

Under current law, employees aged fifty or older can make extra "catch-up" contributions of up to $7,500 per year to their 401(k) or 403(b). Beginning in 2025, individuals aged 60 through 63 will be able to contribute up to $10,000 annually. Furthermore, that amount will be indexed to inflation, meaning it will go up as inflation does.

For people who are 50 or older – but not between the ages of 60-63 – the catch-up limit will remain $7,500 per year.

People aged 50 and older who own IRAs can also make catch-up contributions, albeit at a smaller amount. Currently, the catch-up contribution limit for IRAs is $1,000 per year. In 2024, that number will be indexed to inflation, too. Again, that means the limit could increase each year as cost-of-living expenses rise.

Changes for Businesses[2]

Beginning in 2025, the law requires businesses to automatically enroll employees in any new 401(k) or 403(b). Furthermore, unless the employee opts out or elects to contribute a different amount, they would automatically contribute 3% of their pay.

Another change: Starting in 2024, employers can help workers with their student loan payments! Because it can be so difficult to both save for retirement and pay off college debt at the same time, employers can "match" an employee's loan payment with an equal contribution to their retirement account. This is a great option for younger investors, so if this provision applies to you or a loved one, make sure to inquire whether your employer plans to take advantage of it! And business owners around the country will be looking to use this provision to compete and retain top talent.

Other Provisions to Note[2]

Here's an interesting provision: Starting in 2024, individuals may transfer money from a 529 plan into a Roth IRA. This could be useful if you own a 529 plan that has more funds than you or your loved one needs to pay for an education. Think of it as a way to add more flexibility to your long-term finances.

It's important to note, however, that this provision comes with many terms and conditions. For example, the Roth IRA must be in the same name as the beneficiary of the 529 plan. Furthermore, no transfers can be made until the 529 plan has been maintained for at least fifteen years. There are also very specific limits on how much money can be rolled over. So, if you ever intend to use this provision, my suggestion is to talk to me or another experienced financial advisor first so you can be guided through the process.

Everyone needs a Rainy-Day Fund, but sometimes, even this isn't enough to handle unexpected expenses, like a health crisis or loss of income. Under SECURE Act 2.0, it's now easier to use your retirement savings in an emergency. Previously, there was a 10% penalty for withdrawing money from a retirement account prior to reaching age 59½. (This was to prevent people from using their retirement savings for something other than retirement.) However, there are some exceptions, such as when you need the money to pay for certain medical expenses. The new law has expanded the list of exceptions. Here are some examples where the 10% penalty no longer applies:

- Recovering from a natural disaster, like an earthquake or hurricane
- Dealing with a terminal illness
- Being the victim of domestic abuse

The law also allows for emergency withdrawals for any taxpayer who needs to meet *"unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses."*[2] Now, what the law does not do is specify what situations qualify as an emergency. Instead, the law states that *"the administrator of an…eligible retirement plan may rely on an employee's written certification that the employee satisfies the conditions of the preceding sentence in determining whether any distribution is an emergency personal expense distribution."*[2]

Basically, this means people need to be reasonable in determining for themselves what qualifies as an emergency. Hopefully, you will never have to make use of this provision. But it's nice to know that it's there in case you ever do!

The final provision we want to address involves qualified charitable distributions or QCDs. A QCD is a direct transfer of funds from your IRA to a qualified charity. They are a popular tool for retirees who want to contribute to a worthy cause because QCDs also double as RMDs in most situations.

Under SECURE Act 2.0, people aged 70½ and older may use a QCD to gift up to $50,000 to a beneficiary. This is a one-time deal, and several conditions must be met. So, again, if you want to take advantage of this provision; talk to us first so we can help you navigate the rules and restrictions.

Lastly, the law also links the maximum annual QCD amount to inflation rather than capping it at $100,000 like before.

In Conclusion

As you can see, SECURE Act 2.0 is loaded with provisions for those saving for retirement. If you believe some of these provisions may affect you, please reach out to us with any questions.

Happy New Year!

Sources

1"Here's what's in the $1.7 trillion spending law," CNN, December 29, 2022.

2 Text of "CONSOLIDATED APPROPRIATIONS ACT OF 2023," (beginning page 817), Congress.gov. https://www.congress.gov/117/bills/hr2617/BILLS-117hr2617enr.pdf