SECURE Act 2.0

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On December 29, 2022, President Biden signed the Consolidated Appropriations Act, 2023, into law. This legislation included broad, bipartisan retirement savings provisions often referred to as "SECURE 2.0," an upgrade to 2019's Setting Every Community Up for Retirement Enhancement. With the passage of SECURE 2.0, millions more Americans now have a better chance at retirement success.

Retirement savers will gain a range of potential benefits from this legislation. While not an exhaustive list, below are several significant provisions that may be important for investors. Please note that not all effective dates are the same. A few provisions take effect immediately while most do not become effective for many years.

Here are several highlights of the new law and what they mean for advisors and their clients:

Increase in the required minimum distribution (RMD) age

The required minimum distribution age will increase to 73 beginning on January 1, 2023, and will increase further to age 75, beginning on January 1, 2033.

The excise tax penalty imposed for missed RMDs was reduced to 25% from the prior 50%. This penalty can be further reduced to 10% if errors are fixed within a defined correction time window.

A new post-death option was added for surviving spouse beneficiaries. Beginning in 2024, this provision allows for the spouse to elect to be treated as the decedent for RMD purposes.

Harmonization of Roth plan distribution rules with IRA provisions

Beginning in 2024, owners of Roth IRAs and Roth 401(k)s do not have to take RMDs. However, beneficiaries of Roth IRAs or 401(k)s are still subject to RMD rules after the death of the account owner. This provision eliminates the pre-death distribution requirement for Roth accounts in employer-sponsored retirement accounts effective for tax years beginning on or after January 1, 2024.

Age 50+ catch-up contributions increase, but for certain workers, must be made on a Roth basis

Participants aged 60 through 63 can contribute the greater of $10,000 or 50% more than the standard catch-up amount to their defined contribution (DC) plan beginning in 2025.

Catch-up contributions to qualified retirement plans by employees making more than $145,000, must be made as Roth contributions, beginning in 2024. Lower-paid employees may still contribute catch-up contributions on a pre-tax basis. Plan sponsors must provide a Roth catch-up option for use by affected participants, otherwise no catch-up contributions may be made by any plan participant.

IRA catch-up contributions will now be adjusted for inflation starting in 2024, instead of remaining a static $1,000.

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Rollovers from 529s to Roth IRAs

This provision allows tax- and penalty-free rollovers from 529 accounts to Roth IRAs under certain circumstances. Beneficiaries of 529 college savings accounts would be permitted to roll over up to $35,000 over the course of their lifetime from any 529 account in their name to their Roth IRA if the 529 account has been in existence for more than 15 years and the amount to be rolled over has been held in the account for at least 5 years. These rollovers would be subject to annual Roth IRA contribution limits. This is effective for distributions made on or after January 1, 2024.

Automatic enrollment now mandatory for new defined contribution plans in 2025

In general, most employers offering new retirement plans must automatically enroll new hires at a saving rate of at least 3% of pay and automatically increase their saving rate by at least 1% every year up to at least 10% but not to exceed 15%. Employers who currently offer a 401(k) or 403(b) plan are not required to add the automatic features. This provision applies to new plans established on and after December 29, 2022 (but those plans would not be required to introduce the automatic enrollment features until 2025).

More access to retirement funds and more opportunities to save during times of need

As part of this legislation, there are numerous provisions to benefit savers and people who may be struggling financially. For example, penalty-free withdrawals are available for:

- Domestic abuse victims.
- People with terminal illness.
- Individuals suffering losses in a federally declared disaster.
- Public safety officers aged 50 and above who have separated from service.
- Individuals using certain distributions to pay for long-term care premiums.

More broadly, SECURE 2.0 allows employers to offer up to $1,000 a year in emergency distributions without penalty. For many of these withdrawal options, investors may repay distributions to the retirement account within three years. Effective dates vary for these provisions.

For savers, SECURE 2.0 allows certain part-time workers to become eligible to contribute to employer-sponsored plans after two years of service (rather than three years under current law). In addition, employers may choose to offer a matching retirement plan contribution to students who are paying their student loans and low-income savers may be eligible for matching contributions from the federal government for certain retirement contributions. Finally, employers may offer retirement plan participants access to new emergency savings accounts within retirement plans. Effective dates vary for these provisions.

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