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SECURE 2.0 Wealth Brief

On December 29, 2022, as a part of the governmentâ??s year-end spending bill, Congress passedâ??and the president is expected to sign into lawâ??the SECURE 2.0 Act of 2022 (SECURE 2.0). You may have heard about this act in the news. SECURE 2.0 builds on the reforms included in The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019.

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With support from both major political parties and both houses of Congress, SECURE 2.0 makes it easier for employers to sponsor retirement plans for their employees and easier for investors to save more for retirement.

Of note, there are several changes related to required minimum distributions (RMDs), some of which can impact distribution requirements as soon as next year:

- The required minimum distribution (RMD) age will be increased to 73 for those who attain age 72 between January 1, 2023, and December 31, 2032, and to age 75 for those who reach age 74 after December 31, 2032. (The current RMD age is 72 for those who turned 70 1/2 after January 1, 2020.)

- All catch-up contributions made after December 31, 2023, must be made as Roth contributions (with an exception for employees with annual compensation of $145,000 or less). The dollar amount is indexed.
- Pre-death RMDs for Roth money held in employer plans will be removed, effective for 2024 RMDs.
- Roth 401(k) RMDs will go away beginning in 2024.
- Penalties for missing a RMD will be cut in half beginning in 2023. The penalty will be reduced from 50 percent to 25 percent and, if the omission is corrected in a timely fashion, reduced to 10 percent.

Additional key provisions of SECURE 2.0 that may impact individual retirement savers include the following:

- The catch-up contribution limit will be increased from $6,500 to $7,500 for those between the ages of 50 and 59 and to the greater of either $10,000 or 50 percent more than the regular catch-up amount for those aged 60 through 63. This is effective for taxable years beginning after December 31, 2024.
- The allowance for tax- and penalty-free rollovers from 529 education saving plans to Roth IRAs is limited to $35,000, and beneficiaries must move the funds to a Roth IRA in their name. The 529 must have been opened for more than 15 years.
- Qualified charitable distribution limits will increase. The current $100,000 limit will be indexed for inflation starting in 2023, and the Act will also permit one-time gifts of up to $50,000 via a charitable trust or gift annuity.
- Employers will have the option of treating student loan repayments as elective deferrals for purposes of matching contributions. This allows participants to self-certify and receive a matching contribution to their retirement plan for qualifying student loan repayments made for plan years beginning after December 31, 2023.
- A new Retirement Savings Lost and Found database will be created within two years to collect information on missing, lost, or nonresponsive participants and beneficiaries, and to assist savers in locating their benefits.
- The small-balance automatic cash-out amount will increase from $5,000 to $7,000, effective for distributions made after December 31, 2023.
- Employers will have the option of allowing participants to receive matching contributions on a Roth basis, effective immediately.
- All new 401(k) and 403(b) plans established after December 31, 2024, must offer automatic enrollment and auto-escalation starting at 3 percent minimum, with a maximum increase to 15 percent. Governmental plans and church plans are exempt from this requirement, as are new businesses for the first three years in business and small businesses with fewer than 10 employees.
- The Saverâ??s Credit will be modified to a Saverâ??s Match program. Taxpayers with qualified retirement contributions and who meet certain gross income requirements will be eligible to receive a government matching contribution of up to $2,000 to an eligible individual retirement account (IRA) or retirement plan. Matching amounts will not count toward any annual plan contribution limits. This provision applies to taxable years beginning after December 31, 2026.

Some of these changes will begin to impact retirement plan participants in 2023.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948 or schedule an appointment with a retirement counselor today.

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