SECURE Act 2.0: Changes in Retirement Provisions

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Background

In December 2019, Congress passed the original **Setting Every Community Up for Retirement Enhancement (SECURE) Act**, a major piece of legislation that had a far-reaching impact on the U.S. retirement system. Some of the most impactful changes centered around modifications to the Required Minimum Distribution (RMD) rules, which determine the age at which you must begin taking withdrawals from pre-tax retirement accounts. The SECURE Act raised the minimum RMD age from 70.5 to 72 and eliminated the "stretch IRA strategy" for many beneficiaries. Despite these meaningful changes, there remained a bipartisan appetite to further modify various areas of the retirement system.

Many of those desired changes became law as part of the $1.7 trillion omnibus spending package that passed in December 2022. This package contains provisions from a separate piece of standalone legislation, dubbed **SECURE Act 2.0**. Some provisions build on components of the original SECURE Act, while others are completely new in scope. Below, we highlight a few of the major headlines. Given the vast scope of the legislation, some components are not addressed here. If you have questions about any of these topics, please don't hesitate to reach out to your Westmount Advisor.

Required Minimum Distribution Changes

As with the original SECURE Act, a major component of this legislation centers around changes to the Required Minimum Distribution rules. Most notably, SECURE Act 2.0 increases the RMD age from 72 to 73 starting Jan. 1, 2023. The minimum age will increase again on Jan. 1, 2033, from 73 to 75. These changes do not impact anyone who has already reached their RMD age.

SECURE Act 2.0 also reduces the penalties for missing an RMD. Previously, if you were to neglect to take an RMD by the end of the calendar year, you would have been subject to a penalty equivalent to 50% of the unsatisfied amount. Under SECURE Act 2.0, that penalty is reduced to 25% (or 10% in certain situations).

Changes to Catch-Up Contributions

In an effort to allow older workers to turbocharge their retirement savings, the new legislation has provided a substantial increase in the catch-up contribution amount for qualified plans (i.e., 401[k] or 403[b]). Starting in 2025, workers between the ages of 60 and 63 will be eligible to make an additional contribution beyond the standard catch-up limit. The additional amount will increase to the greater of $10,000 or 150% of the indexed catch-up limit (currently $7,500 for those age 50 or older). There were no major changes to contribution amounts for those outside of the 60-63 age band.

Another major change related to catch-up contributions is the "Rothification" of those contributions for high earners. Prior to SECURE Act 2.0, catch-up contributions could be made in a pre-tax manner (allowing you to defer income tax payments until you were to take a distribution). Starting in 2024, catch-up contributions from taxpayers aged 50 or older who earn more than $145,000/year (indexed to inflation) will need to be deposited into a Roth account using after-tax dollars. This allows the IRS to generate revenue now via income tax, but qualified future distributions will be tax-free. Individuals earning $145,000 or less, adjusted for inflation going forward, will be exempt from the Roth requirement.

Eligibility to Roll Certain 529 Assets into a Roth IRA

529 College Savings Plans will also experience a material change as result of SECURE Act 2.0. Prior to this legislation, there were limited options for what you could do with 529 Plan assets without incurring taxes or a penalty (e.g., qualified educational distributions, plan reassignment, limited student loan repayment). This legislation will add another planning strategy to the toolbox: Roth IRA rollover eligibility.

Starting in 2024, 529 Plan beneficiaries can roll up to $35,000 into a Roth IRA over their lifetime (annual IRA contribution limits still apply). This can be a powerful tool to ensure these assets continue to grow tax-free, assuming qualifications are met. However, there are several key stipulations attached to this strategy. First, the 529 Plan must have been open for at least 15 years. Additionally, the rollover can only be made to the beneficiary's Roth IRA, not to the account owner's.

Changes to Certain Charitable Strategies

Certain charitable giving strategies have also been expanded due to provisions within SECURE Act 2.0. For example, Qualified Charitable Distributions (QCDs) will be indexed to inflation starting in 2024. QCDs are distributions from your IRA that go directly to a qualified 501(c)(3) charity, satisfying RMD requirements without being included in your Adjusted Gross Income (assuming certain rules and requirements are met). The maximum eligible QCD amount is currently $100,000/year, with the introduction of inflation indexing increasing that amount in future years.

Additionally, SECURE Act 2.0 will now allow for a one-time, tax-free transfer of up to $50,000 from an IRA to select split-interest charitable vehicles such as Charitable Remainder Trusts or Charitable Gift Annuities. Certain restrictions apply. Please speak with your estate planning attorney to see how this provision could impact you.

Summary

The aforementioned changes could have a significant impact on your retirement savings and overall financial planning strategy. If you have any questions on how this may impact your plan, please contact us by calling 310-556-2502, emailing info@westmount.com, or contacting your Westmount advisor directly.

For more information, call us at 310-556-2502 to speak with an advisor, or email info@westmount.com.

If you have any comments or questions about this report, please contact us at info@westmount.com.