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Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act

The SECURE 2.0 Act, which President Biden signed into law on December 29, 2022, makes a few immediate changes along with a laundry list of future changes to the nation's retirement plans. These changes directly impact employers, employees, retirees, and self-employed individuals alike.

Below is a summary of the most significant components within SECURE 2.0.

Required Minimum Distributions

Increased Starting Age

Required distributions from retirement accounts will generally begin in the year someone reaches the age of 72. These distributions are calculated using the prior year-end balance and a factor based upon your age on December 31 of the current year.

Starting immediately, the age to begin taking these distributions is increased to 73. In 2033, barring any additional changes, the age will increase to 75.

Penalty Relief

Previously, the IRS penalty for failing to take a required distribution was 50% of the unclaimed amount. SECURE 2.0 reduces that penalty to 25%, or 10% if the error is fixed in a timely manner.

No Required Distributions for Designated Roth Accounts

While Roth IRA's have never required distributions during the owner's life, Roth 401K, Roth 403b, and Roth 457 accounts have. For consistency, Congress has aligned the rules by removing the required distribution rules for designated Roth accounts, starting in 2024.

Qualified Charitable Distributions

Qualified Charitable Distributions (QCDs) involve transferring assets directly from an IRA to a qualified charity. These rules stay largely the same after the passage of SECURE 2.0, however two changes include inflating the maximum annual allowance, starting in 2024, and allowing a one-time QCD to a split-interest entity.

Plan Contributions

Election for Roth Treatment of Employer Contributions

Starting this year, employees may elect Roth treatment for employer matching and non-elective contributions, i.e., contributions made by employers whether or not employees make their own contributions. Previously, employer contributions were only made on a pretax basis. If an employee elects Roth treatment, they will have to recognize the employer contribution as taxable income. However, all future growth will be tax-free if the standard conditions are met.

Employees are also allowed to elect Roth treatment in SIMPLE IRAs and SEP IRAs.

Roth-Only Catch-Up Contributions

Workers 50 and older can make catch-up contributions to their employer-provided retirement plan in addition to the standard deferral amounts. Beginning in 2024, those employees who earn more than $145,000 will be forced to elect Roth treatment for any catch-up contributions they make, whether they have a traditional 401(k) or not.

Additional SIMPLE Contributions

Employees of qualified small employers may make contributions 10% higher than normal to their SIMPLE IRA or SIMPLE 401k plans. A qualified small employer must meet one of the following criteria: (1) have 25 or fewer employees or (2) increase their standard matching formula to 4% or nonelective contribution to 3%, (from 3% and 2%, respectively).

Employer Matching of Student Loan Payments

Historically, the IRS has permitted qualified student loan payments to be treated as employee contributions to an employer-provided retirement plan for the purposes of employer matching. However, no statutory rules specifically authorized this practice. SECURE 2.0 now provides the necessary legal precedent.

Enhanced Catch-Up Contributions

Starting in 2025, the catch-up contribution threshold will increase by 50% for those age 60 to 63 on December 31 of each year. Be aware though that catch-up contributions will start at 50, get a bump up at age 60 by 50%, and then get a bump back down at age 64.

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IRA Catch-Up Contributions

IRA catch-up contributions for those 50 and older will be indexed for inflation starting in 2024.

Penalty-Free Access Expanded

Beginning 2023

- Private-sector firefighters, qualified public safety officers, and corrections employees may take penalty-free distributions if separation from service occurs after age 50.
- Individuals diagnosed with a terminal illness that is expected to result in death within seven years may take penalty-free distributions. If money is taken out, but later realized it is not needed, then the funds can be put back into the IRA within 3 years of the distribution.
- Qualified disaster-recovery distributions of up to $22,000 are penalty-free if the individual's principal residence is in a federally declared disaster area.

Beginning 2024

- Victims of domestic abuse may take penalty-free distributions of up to the lesser of $10,000 or 50% of the vested balance. Distributions may be repaid within 3 years.
- Withdrawals of up to $1,000 for an emergency expense may be taken penalty-free. No additional distributions may be made under this exception for either three years or until the distribution is repaid.

Beginning 2026

- Qualified long-term care distributions are penalty-free up to the lesser of these amounts: the individual's total annual long-term care insurance premiums, 10% of the vested retirement account balance, or $2,500.

Qualified Tuition Programs

529 to Roth IRA Rollover

The rise of college costs led to the creation of 529 college savings plans. Although contributions are not tax-deductible at the federal level (state deductions may vary), 529 earnings growth is tax deferred and qualified distributions for college expenses are tax-free. When the account has been overfunded, though, non-qualified distributions are subject to tax and a 10% penalty.

SECURE 2.0 allows the rollover of 529 funds to a Roth IRA in the name of the 529 plan beneficiary. Among the restrictions: the 529 must be open for at least 15 years, any contributions made in the five years preceding the rollover are not eligible, rollover amounts are subject to the annual IRA contribution limits, and there is a lifetime cap of $35,000 per beneficiary. So, someone can implement a rollover each year, based on IRA contribution limits, but with a maximum lifetime limit of $35,000.

Annuity Changes

Qualified Longevity Annuity Contracts

Qualified longevity annuity contracts (QLACs) are a deferred-income annuity that requires a small premium up front. Income from a QLAC begins much later, usually at age 85. SECURE 2.0 eliminates the 25% of account-balance rule, which limited the purchase of a QLAC to no more than 25% of a person's retirement account balance. The new law also increases the maximum QLAC premium purchase to $200,000.

Talk with Your Advisor

We encourage all Mercer Advisors clients to consult their advisor regarding specific provisions in the SECURE 2.0 Act that may affect their retirement planning and other long-range financial goals. In addition, Mercer Advisors is presenting a series of webinars and other resources geared toward helping clients understand how this new law affects them. Visit our Resource Page for more information.

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