PRIVATE BANK

The SECURE Act 2.0: 4 Key Planning Considerations

In late 2022, Congress passed the SECURE Act 2.0—powerful legislation designed to improve financial security in retirement for those both young and old. This new legislation expands on the original SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) and has more than 90 new provisions that affect numerous aspects of retirement saving, from enrolling in a qualified plan to taking distributions after retirement.

Many of these provisions can significantly improve post-retirement financial security but taking full advantage of them requires planning. To guide you through the benefits this new law offers, we have highlighted a few key changes, as well as strategies to consider, as you plan for retirement.

Increased Required Minimum Distribution (RMD) Age

The SECURE Act 2.0 allows retirees to delay required minimum distributions (RMDs) from retirement plans such as 401(k)s and IRAs. As of 2023, the RMD age was raised from 72 to 73, and will increase again to age 75 in 2033. It's important to note the change doesn't affect elective distributions, only required withdrawals. Withdrawals from qualified plans without penalty are permitted starting at age 59½. The change also doesn't impact those who have already retired and have begun taking their RMDs.

The new RMD rules enable retirees to continue benefiting from tax-deferred growth for an additional one to three years, potentially increasing the amount accumulated in retirement accounts.

Those who delay RMDs may have to take larger distributions, creating tax considerations. Remember that RMDs are calculated based on year end account value and remaining years of life expectancy. Delaying RMDs can result in a larger account balance (through investment growth) that must be withdrawn over a shorter period of time.

Since RMDs are taxed as ordinary income, these larger distributions may push the retiree into a higher tax bracket which can impact the taxability of other post-retirement income streams, including Social Security.

In addition to the delayed starting age, beginning in 2024, RMDs will no longer be required from Roth accounts in employer retirement plans. Roth IRAs have always been exempt from lifetime RMD rules.

Strategies to consider

Qualified charitable distributions (QCD) of up to $100,000 per year are still permitted from an IRA beginning at age 70 ½. In the years between 70 ½ and RMD starting age, making charitable contributions from your IRA can be one way to both fulfill charitable intentions, and reduce future RMDs. The QCD, which will be indexed to inflation beginning in 2024, is not subject to income tax.

SECURE 2.0 also creates another unique charitable planning opportunity. Beginning in 2023, those utilizing a QCD may elect a one-time gift of up to $50,000 (adjusted annually for inflation) to a charitable gift annuity, charitable remainder annuity trust or charitable remainder unitrust. These types of trust can provide a lifetime stream of income, as well as tax benefits.

Another strategy to consider in the years between retirement and RMD starting age, when a retiree's tax bracket tends to be lower, is a strategic Roth conversion, which can be a powerful tool for legacy planning due to Roth IRA's exemption from lifetime RMD rules. This can be carried out over a period of years to minimize the tax impact of the conversion.

Higher Catch-up Contributions

Retirement plan participants aged 50 and older have long had the option of making catch-up contributions to build their accounts as they near retirement. The SECURE Act 2.0 raises the maximum contribution for retirement plan participants ages 60 through 63 to $10,000 or 50% more than the standard catch-up amount, whichever is greater, starting in 2025. Those limits are indexed to inflation for years after 2025. Those between 50 and 60 years old will still qualify for the previous additional $7,500 in catch-up contributions.

According to the provisions of SECURE 2.0, starting in 2024, plan participants aged 50 and older earning more than $145,000/year must make their catch-up contributions after tax into a Roth account. It should be noted that the IRS announcement on Friday, August 25, 2023 is welcome news for many employees and plan sponsors. The implementation of this particular provision has been delayed to 2026.

Strategies to consider

The new catch-up contributions provide a limited, but important opportunity for additional retirement savings. Those who are eligible (participants between the ages of 60 and 63 beginning in 2025) should take advantage of this provision if they can.

The loss of the income tax deduction for high wage earners (in excess of $145,000) over age 50 should not deter those who can from making their catch-up contribution into a Roth plan. The benefits of a Roth include tax-deferred compounding, and no required minimum distributions during life. For those who don't already have a Roth account, it can also provide a valuable means of tax diversification.

Roth Matching Employer Contributions

Beginning in 2023, the SECURE Act 2.0 gives employees the option to direct employer matching contributions to a Roth account. Previously, all employer matching contributions were made on a pre-tax basis. This feature is optional, and not all employers will opt to incorporate it, and for those who do plan to offer it, it may take time for plans to be updated.

Strategies to consider

Allowing retirement plan matching contributions to be made to a Roth account is especially beneficial to those in a lower income tax bracket who may not benefit from the initial tax benefit of a pre-tax contribution. The feature allows younger employees, who have not yet reached their peak earning years, to save money at their current low tax rate, and withdraw it tax-free when they retire.

Also, as previously noted, beginning in 2024 employer sponsored Roth accounts, like Roth IRAs, will no longer be subject to RMDs. This, paired with lifetime tax deferred compounding creates a meaningful incentive to utilize the Roth option when available.

529 to Roth IRA Conversion

The SECURE Act 2.0 makes 529 college savings plans more flexible by permitting account owners, under certain conditions, to rollover unused funds into Roth IRAs for their beneficiaries.

Starting in 2024, account owners can transfer as much as $6,500 per beneficiary, per year (and up to $35,000 total) from a 529 to a Roth IRA account for the 529 plan beneficiary. To qualify, the 529 plan must have been open for at least 15 years, the amount to be rolled over must have been held in the account for at least five years and the Roth IRA receiving the funds must be in the same name as the 529 plan beneficiary.

Strategies to consider

The ability to transfer unused 529 plan funds to a Roth IRA helps alleviate the concern that a portion of those funds might be subject to income tax, and the 10% penalty applied to funds from a 529 that are not used for qualified education costs. It also provides a potential opportunity for parents or grandparents to make use of the funds they had already set aside for the beneficiary's education to give them a head start on their retirement savings plan.

Find Out How the SECURE Act 2.0 Could Affect Your Retirement Plan

SECURE Act 2.0 has made sweeping changes to retirement planning. New provisions govern everything from RMDs to rollovers to catch-up contributions, providing retirement investors with greater flexibility and more ways to achieve financial security in retirement, and build their legacy.

We encourage you to reach out to your dedicated Private Banker or Eileen Cahill, Senior Managing Director, Financial Planning, to discuss your personal situation and review strategies to help meet your family's long-term goals and objectives.

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