

SECURE 2.0: Key provisions and planning considerations

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SECURE 2.0 becomes law

- Attached to year-end omnibus spending bill, broad bipartisan support
- Major themes:
 - Expand access to retirement plans
 - Encourage participation
 - Increase and preserve retirement savings
 - Provide easier access to retirement savings
 - Expansion of Roth accounts
 - Address retirement income challenges

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SECURE 2.0: Key provisions & planning considerations

In late 2022 Congress passed an omnibus spending bill that included the SECURE 2.0 Act of 2022. This legislation builds on the original SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) that expanded access to retirement accounts, promoted participation, and preserved savings. While some changes will take effect in 2023, many will be phased in over the next few years. Here's a summary of key provisions within the new law.

Increase participation within retirement plans

- **Auto-enrollment requirement for new plans:** Beginning in 2025, new 401(k) and 403(b) plans must auto-enroll participants with a minimum deferral rate of 3% of salary but not more than 10%. Unless participants opt out, salary deferrals increase each year by 1% to a maximum of 15%. Exceptions apply for existing plans, employers with 10 or fewer employees, new businesses (less than three years in operation), church plans, and governmental plans.
- **Enhanced tax credit for start-up retirement plans:** Beginning in 2023, certain small businesses establishing new plans will be able to calculate the tax credit based on 100% of administrative costs (increased from 50%) with an annual cap of \$5,000. The tax credit is available for the first three years of the plan.

Increase retirement savings

- **Additional catch-up contributions at age 60:** Beginning in 2025, retirement plan participants can increase catch-up contributions at ages 60, 61, 62, and 63. The additional contribution is the greater of \$10,000 or 150% of the catch-up contribution in place for 2025. The current catch-up contribution in retirement plans for those age 50 and older is \$7,500.
- Other provisions include indexing the IRA catch-up contribution limit for inflation (2024), higher contribution limits for SIMPLE IRAs (2024), and a Saver's Match (2027) calculated at 50% of a retirement plan or IRA contribution up to \$2,000 for those below certain income limits (income phaseouts begin at \$20,500 for single taxpayers, \$41,000 for married couples filing a joint tax return).

Preserve retirement savings

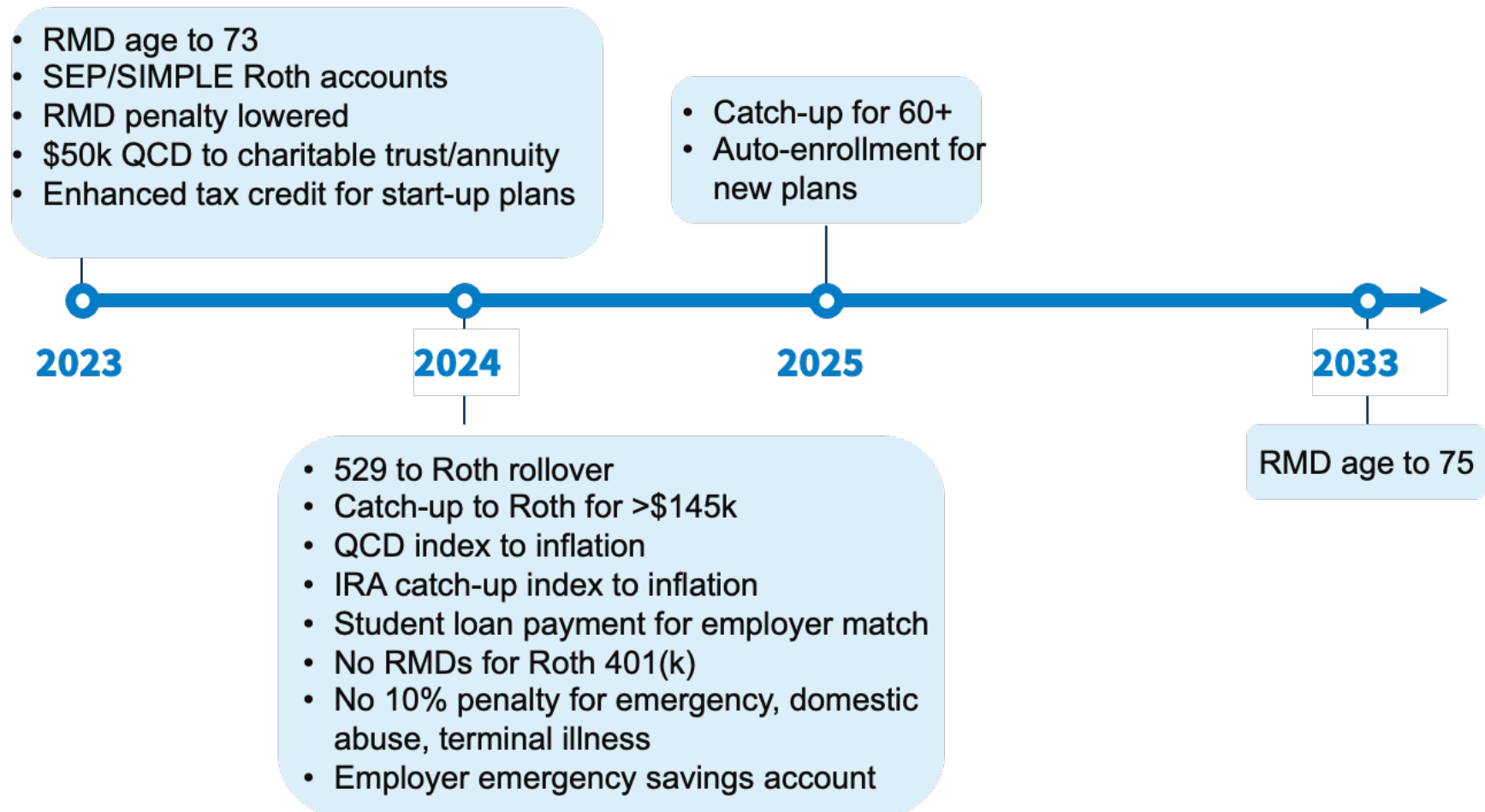
- **RMD age increase:** Beginning this year, the age for required minimum distributions increases from 72 to 73. This means that the RMD age for those born from 1951 through 1959 is 73. The RMD age increases to 75 in 2033, meaning that those born in 1960 or later will not be required to take minimum distributions until reaching age 75.
- Other provisions include elimination of RMDs for designated Roth accounts (i.e., Roth 401(k)) beginning in 2024 and a decrease in the penalty for not taking an RMD. Effective immediately, the penalty is reduced from 50% of the RMD amount to 25%, and as low as 10% if the mistake is corrected in a timely manner.

Expand use of Roth accounts

- **SEP and SIMPLE Roth accounts:** Beginning this year, the option to contribute to Roth accounts will be available within SEP and SIMPLE plans.
- **Roth option for employer contributions:** If the plan allows, participants may direct employer-matching or other employer contributions to a designated Roth account instead of a traditional pre-tax account.
- **Requirement for catch-up contributions into a Roth account:** For those with compensation exceeding \$145,000 in the previous year, catch-up contributions must be directed into a designated Roth account within the retirement plan, instead of having the option of making those contributions into a traditional, pre-tax account (beginning in 2024).

Sources: Consolidated Appropriations Act, 2023, DIVISION T, SECURE Act of 2022, Senate Finance Committee, SECURE 2.0 Section by Section Summary. Based on current interpretation of the legislation, subject to change.

Timeline of key provisions



Sources: Consolidated Appropriations Act, 2023, DIVISION T, SECURE Act of 2022, Senate Finance Committee, SECURE 2.0 Section by Section Summary. Based on current interpretation of the legislation, subject to change.

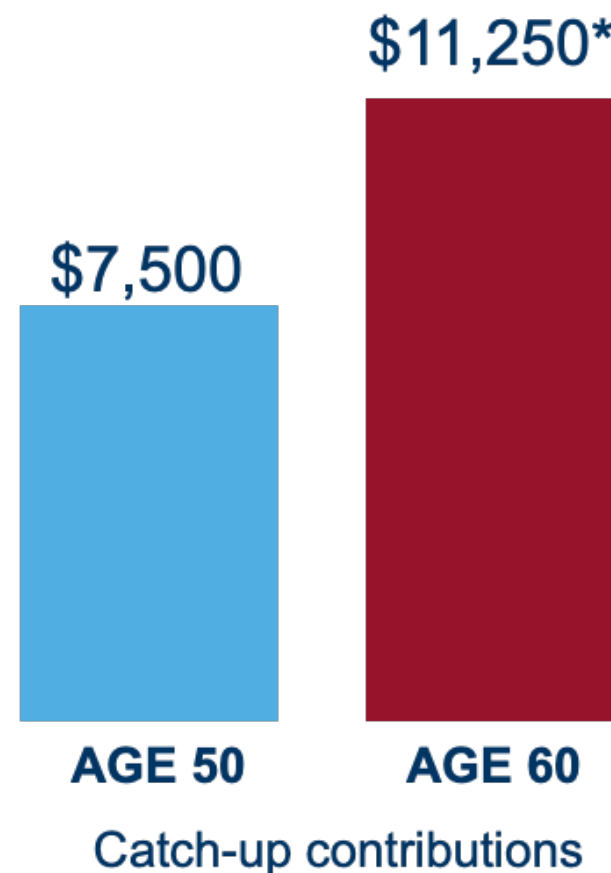
Increase in the RMD age

When were you born?	RMD age
1950 and earlier	72 (or 70 ½ if you reached that age before 2020)
1951 – 1959	73
1960 and later	75

Sources: Consolidated Appropriations Act, 2023, DIVISION T, SECURE Act of 2022, Senate Finance Committee, SECURE 2.0 Section by Section Summary. Based on current interpretation of the legislation, subject to change

Opportunities for clients to save more

- Additional catch-up contribution at ages 60-63 equal to the greater of \$10,000 or 150% of the current limit
- Higher contribution limits for SIMPLE plans
- IRA catch-up (currently \$1,000) indexed for inflation



* Based on 150% of the current catch-up contribution for plan participants aged 50 and older

Sources: Consolidated Appropriations Act, 2023, DIVISION T, SECURE Act of 2022, Senate Finance Committee, SECURE 2.0 Section by Section Summary. Based on current interpretation of the legislation, subject to change

New! 529 to Roth IRA transfers

- What we know currently:
 - Up to \$35,000 in unused 529 funds (over lifetime) can be contributed into a Roth IRA in the name of the 529 beneficiary
 - 529 plan must be in place for at least 15 years, the last 5 years of contributions (and earnings) cannot be transferred
 - Subject to annual IRA contribution limit and earned income requirement, but NOT the income phase-outs for Roth IRA contribution eligibility
- What we're not sure of:
 - Does a change in 529 beneficiary trigger a re-set of the 15 year clock?
 - Does a transfer to another 529 program trigger a reset of the 15 year clock?

Sources: Consolidated Appropriations Act, 2023, DIVISION T, SECURE Act of 2022, Senate Finance Committee, SECURE 2.0 Section by Section Summary. Based on current interpretation of the legislation, subject to change

Changes to Qualified Charitable Distributions (QCDs)

- Annual limit (currently \$100,000) indexed for inflation beginning in 2024
- One-time option to direct up to \$50,000 to a charitable trust or charitable gift annuity
- The trust must be for the sole benefit of the IRA owner or spouse

Sources: Consolidated Appropriations Act, 2023, DIVISION T, SECURE Act of 2022, Senate Finance Committee, SECURE 2.0 Section by Section Summary. Based on current interpretation of the legislation, subject to change.

Other key provisions

- Expansion of Roth accounts – Roth SEP/SIMPLE, option for employer match into Roth, catch-up contributions must be made into Roth if previous year compensation > \$145,000
- Student loan payments qualify as salary deferrals for purposes of the employer-match (if plan adopts)
- New retirement plans must auto-enroll participants (with exceptions)
- More ways to avoid the 10% early withdrawal penalty (emergencies, terminal illness, domestic abuse)
- Reduction in penalty for not taking RMD from 50% to 25% and potentially 10% if corrected in a timely manner

Sources: Consolidated Appropriations Act, 2023, DIVISION T, SECURE Act of 2022, Senate Finance Committee, SECURE 2.0 Section by Section Summary. Based on current interpretation of the legislation, subject to change.

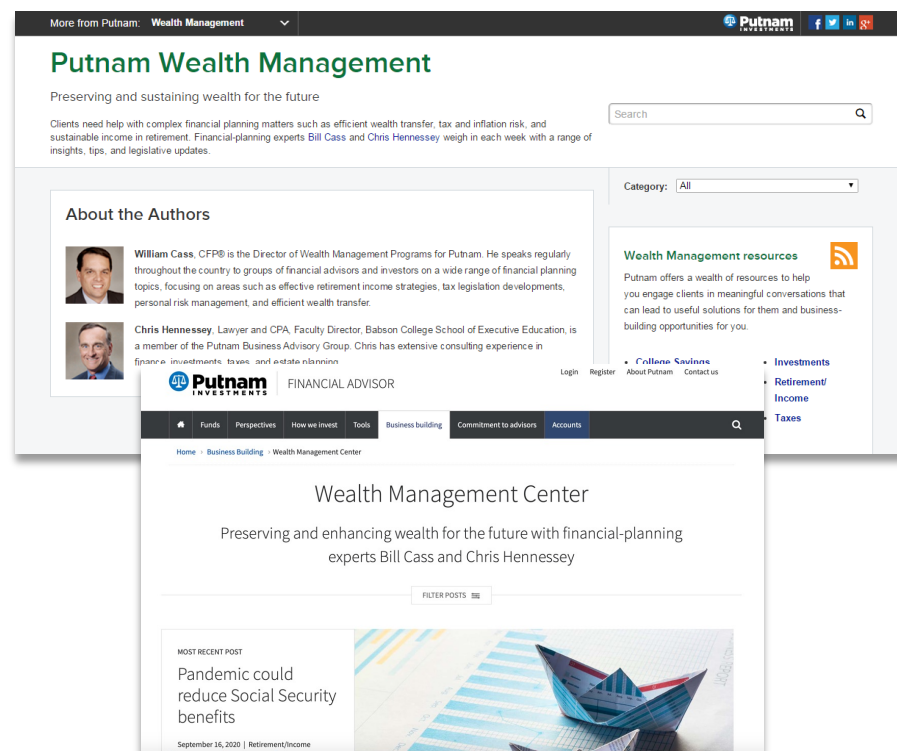
Planning considerations

- With increase in the RMD age, consider using the "extra" years available for QCDs (beginning age 70 ½) or Roth IRA conversions
- Take advantage of additional savings opportunities (new catch-up contributions)
- Plan participants in lower tax brackets may want to request employer match in Roth account
- Parents and grandparents may want to consider over-funding 529 plans knowing that unused amounts may be a way to jumpstart retirements savings for 529 beneficiaries (or fund their own Roth?)
- Business owners not sponsoring a retirement plan should consider taking advantage of the enhanced tax credits available to establish a new plan

Sources: Consolidated Appropriations Act, 2023, DIVISION T, SECURE Act of 2022, Senate Finance Committee, SECURE 2.0 Section by Section Summary. Based on current interpretation of the legislation, subject to change.

Resources designed to help you engage clients and prospects

- Client seminar and investor education pieces on the tax landscape and planning ideas
- Wealth Management Center blog articles and resources
 - [Putnamwealthmanagement.com](https://putnamwealthmanagement.com)
- Video commentary and podcasts



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Chris Hennessey, Lawyer and C.P.A., is Professor Emeritus of Law at Babson College and member of the Putnam Investments Business Advisory Group. His opinions do not necessarily reflect those of Putnam Investments.

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