What to Know About Secure 2.0 Updates and Your Retirement

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For investors of all ages, saving for retirement is one of the most important – and sometimes problematic – components of their financial plans. But hopefully it became a bit easier with the enactment of the SECURE 2.0 Act of 2022 (SECURE 2.0) — a law that builds on the Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in December 2019.

No matter where individuals are in their professional careers — the beginning, middle, or end — the latest updates are designed to help strengthen our nation's retirement system, and ultimately, Americans' financial readiness for this important stage in their lives.

Required minimum distribution (RMD) ages pushed back again

If you are close to retirement or already retired, you may recall that the SECURE Act legislation passed in 2019 pushed back the RMD age from 70-1/2 to 72 years. Under SECURE 2.0, RMDs now will begin at age 73 for individuals born between 1951 and 1959, and age 75 for persons born in 1960 or later.

Birth Year	Age RMDs Begin
1950 or earlier	72
1951-1959	73
1960 or later	75

Gradual Changes Regarding Higher Catch-up Contributions

Currently the IRA catch-up contribution limit is $1,000 for individuals who are 50 years of age or older. While catch-up contributions to employer sponsored plans are $7,500.

Beginning in 2024, the catch-up contribution limit will be indexed based on inflation. The amount could go up each year thereafter, depending on federal cost-of-living increases.

Effective January 1, 2025, the new law allows people 60 through 63 years of age to make higher catch-up contributions to their workplace plans, up to a maximum of $10,000 per year per individual (indexed to inflation).

Finally, starting in 2026, high-wage earners age 50 or older (individuals making over $145,000 in the previous calendar year) who elect to make catch-up contributions to their workplace plans will have to do so with after-tax dollars into a Roth account. Employees earning $145,000 or less (indexed for inflation) in the previous calendar year will be exempt from this requirement.

What you need to know for 2024 and beyond:

- Interestingly, no one will have their RMD begin in 2023. For example, if you were born in 1950, your RMD began in 2022. But what if you were born in 1951 and turn 72 in 2023? Under the new law, your RMD will be pushed back a year to 2024 and will start at age 73 instead. Age 73 will remain the required age to begin RMDs through the year 2032. The following year (2033), RMDs will be required starting at age 75.
- Under the new legislation, the penalty for the portion of a RMD that is not satisfied on or before the required date has been reduced from 50% to 25% — and further reduced to a 10% penalty if the shortfall is rectified within a "correction window." The "correction window" is defined as beginning on the date that tax penalty is imposed and ends upon the earliest of the following dates:

- When the Notice of Deficiency is mailed to the taxpayer
- When the tax is assessed by the IRS
- The last day of the second tax year after the tax is imposed

Although these changes do not prevent a taxpayer from seeking to have the penalty abated altogether, a smaller penalty may give some individuals an incentive simply to pay the penalty and move on.

New RMD option for surviving spouse of a retirement account owner

In certain circumstances under the new law, a surviving spouse of a retirement account owner can elect to use the age of the deceased spouse for RMD purposes without choosing an inherited IRA.

What you need to know for 2024 and beyond:

Beginning in 2024, a surviving spouse of a retirement account owner can elect to use the age of the deceased spouse for RMD purposes if it's advantageous. Under these circumstances, RMDs for the surviving spouse would be delayed until the deceased spouse would have reached the required birth year to commence RMD distributions.

For example, let's say Mr. Smith is 65 years old, and Mrs. Smith is 70 years old. Mr. Smith dies first. His wife can elect to use her husband's age to delay beginning her RMDs until such time when Mr. Smith would have reached his required age for distributions. If Mrs. Smith would die before the RMDs began, her beneficiaries will be treated as the original beneficiaries who would then be able stretch distributions over their life expectancy rather than taking distributions under the 10-year rule.

Changes related to the Roth Individual Retirement Account (IRA)

The following information highlights various ways the new law affects Roth IRAs.

What you need to know for 2024 and beyond:

- Beginning next year, the law eliminates RMDs for Roth accounts in qualified employer plans (e.g., Roth 401(k) and Roth 403(b) plans).
- Updates to the law allow creation of Savings Incentive Match Plan for Employees (SIMPLE) and Simplified Employee Pension (SEP) Roth IRAs. Although this change begins in 2023, it will take some time for custodians of these accounts to implement.
- Employers will be able to deposit matching and/or nonelective contributions to employees' designated Roth accounts.
  - Previously, if an employee elected Roth contributions in their company plan, employer contributions went into their pre-tax portion.
  - Such employer amounts, if elected by the individual to go into the Roth portion, will be included in the employee's income in the year of contribution, and must be nonforfeitable (not subject to vesting).
  - It's also important to note that RMDs from employer-sponsored plans are required for Roth accounts until the 2024 tax year.

- Also beginning next year, the changes in the law allow 529 plan rollovers to Roth IRAs after 15 years.
  - The maximum aggregate lifetime rollover amount is $35,000.
  - The Roth IRA must be in the name of the 529 plan beneficiary.
  - The 529 plan must have been maintained for at least 15 years.
  - Contributions/earnings within the last five years are not eligible.
  - Total annual contributions to the Roth IRA (including any 529 plan rollover) cannot exceed annual limit ($6,500 in 2023).

Impact to Qualified Charitable Distributions (QCDs)

Keep in mind the changes that SECURE 2.0 made to the RMD age guidelines do not have an impact on when Qualified Charitable Distributions (QCDs) can be made. QCDs can still begin at age 70-1/2.

However, beginning in 2023, the new bill gives individuals a one-time opportunity to distribute up to $50,000 of a QCD to certain split-interest giving trusts: a Charitable Remainder Unitrust (CRUT), Charitable Remainder Annuity Trust (CRAT), or a Charitable Gift Annuity (CGA). However, no additional funds can be added.

What you need to know for 2024 and beyond:

Additionally, SECURE 2.0 indexes the $100,000 qualified charitable distribution (QCD) limit to increase with inflation in 2024. This can be a useful planning technique. Why? Because QCDs are excluded from taxable income and, therefore, not included when calculating Supplemental Security Income/Medicare surcharges.

Next steps

Whenever there are major legislative changes that affect you and your money, it's always a good idea to consult with financial, legal, and tax professionals to learn how the new laws impact your personal financial situation.

We're here to help you understand what SECURE 2.0 means for you and your family, now and in the future. Discover firsthand how our team of professionals can offer guidance with your financial planning, explain potential opportunities for growing your wealth, and help implement a wide range of solutions to get you to and through retirement. We encourage you to contact Commerce Trust today.

Source: SECURE 2.0 Act of 2022, signed into law December 29, 2022.

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