ViewPoints

SECURE Act 2.0 – Key Takeaways

Entasis
ASSET MANAGEMENT

KEY TAKEAWAYS FROM SECURE ACT 2.0

The Setting Every Community Up for Retirement Enhancement Act of 2019, popularly known as the SECURE Act, was signed into law in late 2019. Now called SECURE Act 1.0, it included provisions that raised the requirement for mandatory distributions from retirement accounts and increased access to retirement accounts, among other items.

In its final act of 2022, Congress approved a massive year-end spending bill that included a set of changes in what is being called SECURE Act 2.0. The legislation included many provisions, but here are the highlights we have pulled that we believe are most relevant to our clients.

1) Changing the age of required minimum distributions.

Three years ago, 1.0 increased the age for taking the required minimum distribution, or RMD, to 72 years from 70½. If you turn 72 this year, the age required for taking your RMD increases to 73 with 2.0. If you turned 72 in 2022, you will remain on the prior schedule. If you turn 72 in 2023, you may delay your RMD until 2024, when you turn 73. Or you may push back your first RMD to April 1, 2025. Just be aware that you will be required to take two RMDs in 2025, one no later than April 1 and the second no later than December 31. Starting in 2033, the age for the RMD will increase to 75. Employees enrolled in a Roth 401(k) will not be required to take RMDs from their Roth 401(k). That begins in 2024.

2) RMD penalty relief.

Beginning this year, the penalty for missing an RMD is reduced to 25% from 50%. And 2.0 goes one step further. If the RMD that was missed is taken in a timely manner, and the IRA account holder files an updated tax return, the penalty is reduced to 10%. This is certainly good news that penalties are smaller, but avoiding the penalties is obviously preferred.

3) A shot in the arm for employer-sponsored plans.

Too many Americans do not have access to employer plans or simply do not participate. Starting in 2025, companies that set up new 401(k) or 403(b) plans will be required to automatically enroll employees at a rate between 3% and 10% of their salary. The new legislation also allows for automatic portability, which will encourage folks in low-balance plans to transfer their retirement account to a new employer-sponsored account rather than cash out. In order to encourage employees to sign up, employers may offer gift cards or small cash payments. Think of it as a signing bonus. Employees may opt out of the employer-sponsored plan.

4) Increased catch-up provisions.

In 2025, 2.0 increases the catch-up provision for those between 60 and 63 from $6,500 in 2022 ($7,500 in 2023 if 50 or older) to $10,000, (the greater of $10,000 or 50% more than the regular catch-up amount). The amount is indexed to inflation. Catch-up dollars are required to be made into a Roth IRA unless your wages are under $145,000.

5) Charitable contributions.

Starting in 2023, 2.0 allows a one-time, $50,000 distribution to charities through charitable gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts. One must be 70 ½ or older to take advantage of this provision. The $50,000 limit counts toward the year's RMD. It also indexes an annual IRA charitable distribution limit of $100,000, known as a qualified charitable distribution, or QCD, beginning in 2023.

6) Back-door student loan relief.

Starting next year, employers are allowed to match student loan payments made by their employees. The employer's match must be directed into a retirement account, but it is an added incentive to sock away funds for retirement.

7) Rollover of 529 plans.

Starting in 2024, and subject to annual Roth contribution limits, assets in a 529 plan can be rolled into a Roth IRA, with a maximum lifetime limit of $35,000. The rollover must be in the name of the plan's beneficiary. The 529 plan must be at least 15 years old. In the past, families may have hesitated in fully funding 529s amid fears the plan could wind up being overfunded and withdrawals would be subject to a penalty. Though there is a $35,000 cap, the provision helps alleviate some of these concerns.

We believe all of these changes are useful. We welcome them. We believe they will be useful for many of our clients.

Thank you for taking the time to read it. If you have questions about any of these points, please reach out to us.

Bob

Our Team

Bob Batchelor, CFA®, CFP® is Co-Founder and Chief Executive Officer of Entasis Asset Management. Bob has 25 years of experience in the investment industry. Prior to founding Entasis, Bob worked at Artisan Partners where he held a variety of roles including Head of Corporate Communications, Managing Director, Head of Marketing and Technology and Head of Marketing and Communications. He also served as a member of Artisan Partners Executive Committee. Before Artisan Partners, Bob worked at Strong Capital Management as Client Account Manager and Director of Investment Research and Communication.

Bob holds an M.B.A. from Marquette University and a B.B.A. from the University of Wisconsin-Madison. He has earned the right to use the CFA designation. Bob is a member of the CFA Institute and CFA Society of Milwaukee. Bob has also earned the right to use the Certified Financial Planner™ certification and SE-AWMA**™** professional designation.

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