RETIREMENTbyDESIGN
Retirement Income Source

SECURE ACT 2.0 REPORT

WWW.RETIREMENTXDESIGN.COM

SECURE ACT 2.0 REPORT: WHAT THE CHANGES MEAN FOR YOUR RETIREMENT

By David J. Scranton, CLU, ChFC, CFP®, CFA®, MSFS

The $1.7 trillion budget bill signed by President Biden on Dec. 29, 2022, included the bipartisan SECURE Act 2.0. The legislation expands on many of the provisions in the original SECURE Act, which was signed into law in 2019. SECURE is an acronym for *Setting Every Community Up for Retirement Enhancement*, and the combined goal of both pieces of legislation is to remove obstacles and create incentives to help more Americans do a better job of saving for retirement.

In this report, we'll highlight some of the more than 100 provisions in the SECURE Act 2.0 that could impact your retirement savings and/or savings strategy immediately or in the coming years.

Later Start for RMDs

Like the original bill, the SECURE Act 2.0 further raises the starting age for taking Required Minimum Distributions, which are mandatory withdrawals the IRS makes you take from your retirement accounts starting at a certain age. For years that age was 70½. The first SECURE Act raised it to 72 — and starting in 2023 the age is now 73. That means if you turned 72 in 2022 or before you need to keep taking RMDs as usual. But if you turn 72 in 2023, you can choose to wait until next year before taking your first RMD. The RMD starting age will continue getting higher until it reaches 75 in 2033.

Raising the age is a recognition of the fact that people are living longer and often retiring later. It gives you more time to grow your nest egg tax free. That's great news, but it doesn't change the fact that having the right strategy to help satisfy your RMDs will continue to be one of the most important steps in your retirement plan!

Lower RMD Penalties

Another change relating to RMDs is that the penalty for failing to satisfy your distribution in any given year will drop from the current 50% to 25%. The fine drops even further, to 10%, if you miss or underpay a distribution but correct your mistake "in a timely manner."

Other RMD Changes

Another major change for RMDs involves 401(k)s and other workplace retirement plans that have a Roth IRA designation — meaning the account is funded with post-tax dollars and becomes tax-free in retirement. Starting in 2024, those accounts will no longer be subject to RMDs while the owner is still living. As with Roth IRAs, the owner will be able to help avoid distributions and leave the entire account to their beneficiaries. This change will primarily affect wealthy people who don't need to draw from their accounts for retirement income.

Automatic Enrollment

The average 401(k) balance for those aged 65 and up is $216,720.[1] In addition, according to the Census Bureau, only half of Americans participate in a 401(k) even though about 68% of workers have access to one.[2] To help address these problems, the SECURE Act 2.0 will require employers to automatically enroll workers in their company savings plan starting in 2025, putting the onus on workers to opt out. The same rule also mandates that employee contributions increase by 1% each year until they reach at least 10% but not more than 15%.

The new law also allows employers to offer small financial incentives such as gift cards or time off to help boost employee participation in the company retirement plan. Also, part-time workers would no longer be required to work three consecutive years to be eligible for their company's 401(k) plans. Instead, part-time workers would become eligible to participate after working between 500 and 999 hours for two consecutive years.

Emergency Savings

In addition, under the SECURE Act 2.0, unless employees opt out, employers would be allowed to automatically enroll workers in an emergency savings account alongside their retirement plan, up to $2,500. These accounts would be funded with pre-taxed dollars, meaning withdrawals would be tax-free. Employers could also allow workers to take a one-time annual emergency withdrawal of $1,000 from their retirement accounts without incurring a 10% penalty. According to a Bankrate survey, 51% of Americans don't have enough emergency savings to cover three months of household expenses (as analysts recommend), and 25% say they have no emergency fund at all.[3]

Higher Catch-up Contributions

Currently, if you are aged 50 or older you can make catch-up contributions to your retirement plan up to certain limits. Starting in 2025, the SECURE Act 2.0 increases those limits to the greater of $10,000 or 50% more than the regular catch-up amount if you are aged 60 to 63. After 2025, those amounts will be indexed for inflation.

Student Loan Matches

Starting in 2024, employers can make matching contributions to your retirement plan account based on your student loan payment amount. This change addresses the fact that many people struggle to save for retirement because they're burdened by student loan debt. A recent Fidelity survey of nearly 500 workers found that nearly 80% said their student loan debts cut into their ability to save sufficiently for retirement.[4]

529 Plan to Roth IRA Rollover

Starting in 2024, people who meet certain requirements may be able to roll over a 529 plan that they have contributed to for at least 15 years to a Roth IRA. Annual limits for the rollover would need to be within the annual contribution limit, and there would be a $35,000 lifetime limit.

Saver's Credit to Saver's Match

Starting in 2027, the SECURE Act 2.0 replaces the nonrefundable "saver's credit" for certain IRA and retirement plan contributions with a federal "saver's match" contribution that is deposited into your IRA or retirement plan. The "saver's match" will be 50% of your IRA or retirement plan contributions up to $2,000 per person — although some income limits, and phaseouts, will apply.

Retirement Savings Lost & Found

The SECURE Act 2.0 Act also calls for the creation of a searchable database to help people find retirement benefits they may have lost track of over the years while moving from job to job. The retirement savings "lost and found" will be housed within the Department of Labor and is scheduled to be operational within the next two years.

Summary

These are just a few of the significant changes brought about by the passage and implementation of the SECURE Act 2.0. As noted, one of the biggest benefits of these changes is that they allow Americans to save for a little bit longer into their IRAs and 410(k)s before having to take mandatory, taxable withdrawals.

While it's good to know the government recognizes that many Americans today face significant challenges when it comes to saving for retirement and is making changes to help address these challenges, the reality is still this: It is up to each individual to take the right steps and implement the right strategies for helping to achieve his or her retirement goals. That process starts with identifying those goals and working with the right advisor to create a strategy specifically designed to help achieve them!

Sources:

1 https://www.westernsouthern.com/retirement/average-retirement-savings-by-age

2 https://www.bls.gov/opub/ted/2021/68-percent-of-private-industry-workers-had-access-to-retirement-plans-in-2021.htm

3 https://www.bankrate.com/banking/savings/emergency-savings-survey-july-2021/

4 https://www.investopedia.com/student-debt-cuts-into-retirement-savings-for-all-age-groups-5088100

RETIREMENTbyDESIGN

Retirement Income Source

18 Crow Canyon Court, Suite 280, San Ramon, CA 94583
Office: 888.303.3203 | Direct: 925.429.5150 | Email: aflores@retirementxdesign.com
www.retirementxdesign.com