What You Need to Know About SECURE 2.0

The SECURE 2.0 Act of 2022 officially became law on December 29, 2022. It is designed to overhaul how Americans save for retirement, and many of the biggest changes are set to take effect between 2023 and 2028. With so many moving parts, it can be hard to keep track of which changes apply to you. Use this summary to familiarize yourself with the SECURE 2.0 provisions and how they could affect your retirement plan going forward.

RMD CHANGES

- **RMD Age Raised:** The RMD age has been raised to 73 for those born between 1951 and 1959. The RMD age will rise again in 2033 to age 75 for those born in 1960 or later.

SECURE Act 2.0 Phased-In Timeline For RMD Beginning Ages

Birth Year	Age at Which RMDs Begin
1950 or earlier	72 (70½ for those who turned 70½ prior to 2020)
1951 - 1959	73
1960 or later	75

- **Decreased Penalty:** The 50% penalty for missed or late RMDs will drop to 25% in 2023. Additionally, IRA owners will have the ability to reduce this penalty further (to 10%) if they take the RMD and file an amended tax return in a timely fashion.
- **Employer-Sponsored Roth Accounts No Longer Subject to RMDs:** Starting in 2024, employer-sponsored Roth accounts, like Roth 401(k)s, will no longer be subject to the RMD requirement.

CATCH-UP CONTRIBUTION CHANGES

- **IRA Catch-Up Contributions Indexed to Inflation:** Starting in 2025, IRA catch-up contributions will be linked to inflation, allowing the contribution limit to increase as the cost-of-living increases.
- **"Special" Catch-Up Contributions for Employees Age 60 to 63:** The SECURE 2.0 Act increases catch-up contributions for employees aged 60 to 63 starting in 2025. As of age 50, retirement plan participants are able to make catch-up contributions up to $7,500 for 2023. The new law increases this amount to $10,000 (indexed to inflation) once you reach age 60.
- **Roth Catch-Up Contributions Required for Those With Wages Above $145,000:** Starting in 2024, employees with wages above $145,000 will be required to make any catch-up contributions to a Roth account, effectively eliminating the current-year deductibility of those contributions. Note that the Roth restriction on catch-up contributions imposed by SECURE Act 2.0 only applies to those who have wages in excess of $145,000 (which will be adjusted for inflation in the future) in the previous calendar year. Thus, it would appear that self-employed individuals (e.g., sole proprietors and partners) would continue to have the opportunity to make pre-tax catch-up contributions, even if their income from self-employment is higher than $145,000.

- **Increased Catch-Up Contributions for SIMPLE Plans:** In 2024, the catch-up contribution limit for SIMPLE plans (IRA and 401(k)) will increase by 10%. In 2025, the catch-up contributions will be increased to $5,000 (indexed to inflation) for employees aged 60 to 63.
- Effective 2024, the SIMPLE IRA contribution limits for some SIMPLE IRAs will increase. More specifically, for employers with 25 or fewer employees, the deferral and catch-up contributions will be increased by 10%. Employers with between 26 and 100 employees can give employees the same enhanced deferral limits if they increase their matching contributions to 4%, or their nonelective contributions to 3% (normally 3% and 2%, respectively).

CHANGES TO 529 ROLLOVERS

- **529-to-Roth-IRA Rollovers:** Unused 529 funds can be rolled over into a Roth IRA starting in 2024. There are some strict limitations to this new rule, including:
  - Lifetime rollover cap of $35,000
  - Rollovers are still subject to the annual Roth contribution limit ($6,500 in 2023), so it may take multiple years to completely roll over the funds.
  - The rollover must be made to the 529 beneficiary's Roth account (typically the student), not the 529 account holder's Roth (typically the parent).
  - The 529 must have been open for at least 15 years.
  - Contributions and earnings made in the last 5 years cannot be rolled over.

OTHER RETIREMENT SAVINGS PROVISIONS

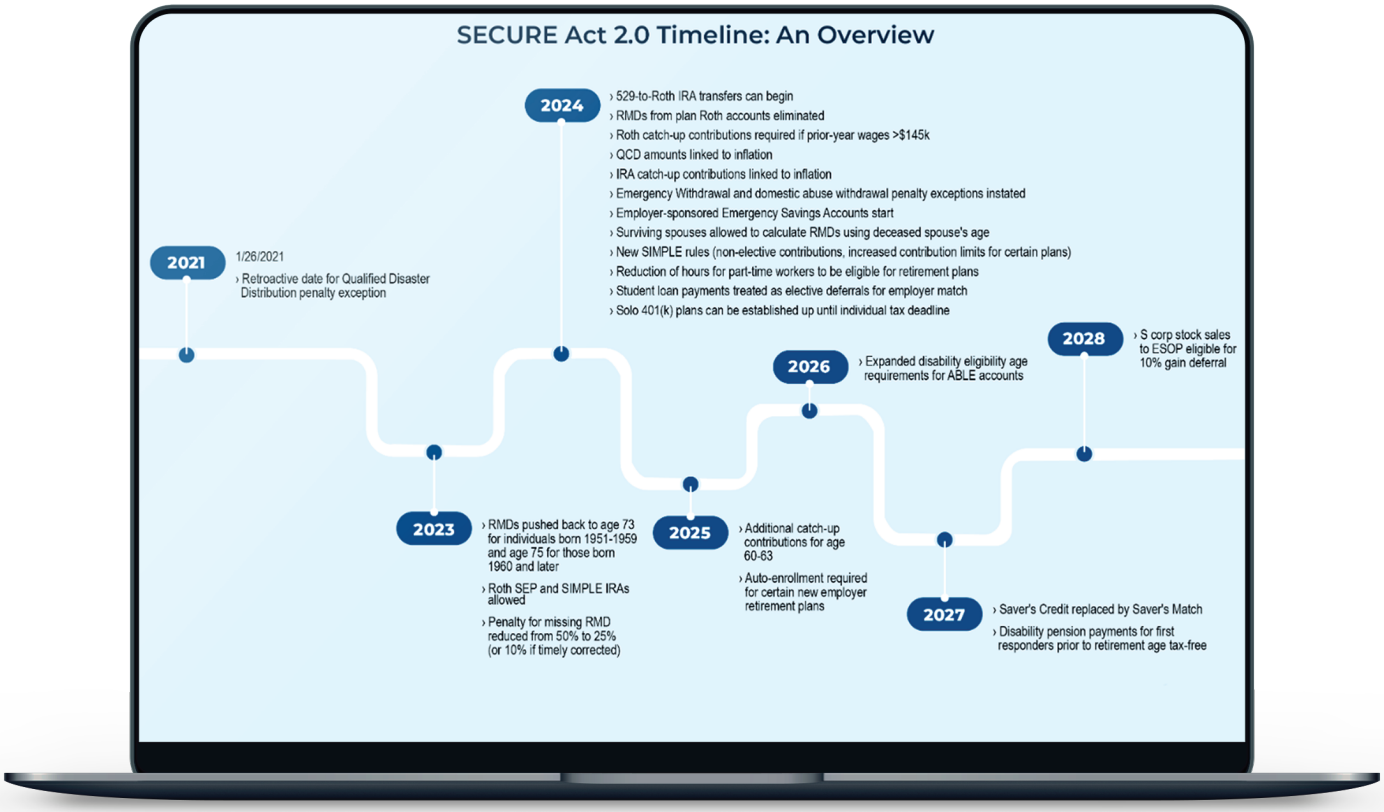
- **Matching Roth Contributions:** Employers will now be able to offer employees the choice to receive matching contributions on a Roth or pre-tax basis. Previously matching contributions were always considered pre-tax. If Roth contributions are selected, they will be considered fully vested upon contribution.
- **Automatic Enrollment & Portability:** Employers will also be required to automatically enroll eligible employees in workplace retirement plans at a minimum 3% contribution rate starting in 2025. Retirement accounts will also be automatically portable, meaning account balances will automatically transfer to your new employer's retirement account if you leave your current job.
- **Employer-Sponsored Emergency Savings Funds:** Employer-sponsored defined contribution plans will start offering emergency savings Roth accounts for non-highly compensated employees starting in 2024. Contributions are limited to $2,500 per year, but the first four withdrawals per year would not be subject to taxes or penalties.
- **Matching Student Loan Payments:** Also in 2024, employers will be able to match an employee's student loan payments by contributing a matching amount to the employee's retirement account.
- **Expanded Roth Eligibility:** Starting in 2023, SIMPLE and SEP IRA accounts will offer Roth contributions. Previously, SIMPLE and SEP plans could only include pre-tax funds. Notably, although individuals technically have the legal ability to create and contribute to Roth SIMPLE and SEP IRA accounts beginning January 1, 2023, it will likely take at least some time before employers, custodians, and the IRS are able to implement the procedures and policies necessary to actually effectuate such contributions.
- **The Saver's Credit:** Effective in 2027, the Saver's Credit will be replaced with the "Saver's Match." The Saver's Match will equal up to 50% of the first $2,000 contributed by an individual to a retirement account each year (so a maximum of $1,000) and must go to a traditional account. Many of the limitations of the Saver's Credit, such as phaseouts at relatively modest income levels, and an inability

inability for full-time students and/or dependents to qualify, are carried over to the Saver's Match. Accordingly, a relatively small percentage of most advisors' clients will qualify for the benefit (although it's good to be aware of this in the event of an uncharacteristically low-income year).

- **Access to funds.** Plan participants can use retirement funds in an emergency without penalty or fees. For example, 2024 onward, an employee can take up to $1,000 from a retirement account for personal or family emergencies. Other emergency provisions exist for terminal illnesses and survivors of domestic abuse.

KEY DATES TO REMEMBER

Many of the biggest provisions will go into effect over the next several years. Use this helpful diagram to keep track of when the most important changes will take place.



How We Can Help

We hope this summary cleared up some questions for you. But if you still have some concerns or would like to make some changes to your financial plan to account for this new law, the Live Oak Wealth Management team is here for you. We can help you navigate the changes and make the most of the new savings opportunities available. To learn more, call our office at 770-552-5968 or email info@liveoakwm.com.

Source: https://www.kitces.com/blog/secure-act-2-omnibus-2022-hr-2954-rmd-75-529-roth-rollover-increase-qcd-student-loan-match/