SECURE Act 2.0

The “Setting Every Community Up for Retirement Enhancement” (SECURE) Act was originally signed into law in 2019 and was drafted to assist Americans in saving and investing for retirement. It was the first major retirement-related legislation since 2006 and increased access to tax-advantaged savings programs, incentivized retirement planning, and contained several provisions to diversify the options available to savers.

At the end of 2022, SECURE 2.0 was passed to expand the legislation and further build on retirement-savings opportunities. There were three goals: encourage people to save for retirement, provide additional flexibility, and reduce the employer cost of setting up a retirement plan.

Here is what you should be aware of as an individual or small business owner.

For Individuals

Starting age for Required Minimum Distributions (RMDs) is increased

- Mandatory withdrawals from retirement accounts now start at age 73 (for individuals born in 1951 or later) and to age 75 (for those born in 1959 or later).

Require new retirement plans to include auto-enrollment and auto-escalation

- 401(k) and 403(b) plans established after 2024 are required to auto-enroll participants at a starting deferral rate of 3% of pay and increase the contribution rate annually by 1% until it reaches at least 10% (but not more than 15%). Employees can choose to opt out.

Workplace-based Roth accounts exempted from lifetime RMDs

- Previously, only Roth IRAs were exempt from RMD requirements during the life of the account holder. RMDs were still required from Roth 401(k) and Roth 403(b) plans. The exemption is extended to workplace-based Roth accounts, effective in 2024.

529 plan rollovers to Roth IRAs

- Beginning in 2024, up to $35,000 can be rolled from a 529 plan to a Roth IRA in the beneficiary’s name, subject to annual limits. The 529 plan must be open at least 15 years to do this. In addition, the beneficiary must have earned income, and 529 contributions and earnings from the last five years aren’t eligible.

Household employees are now eligible for SEP-IRA

- Employers of domestic employees (for example, nannies) can now provide retirement benefits under a SEP-IRA.

New “Treat as Spouse” option for inherited IRAs

- Spouses who inherit IRAs now have the option to elect the decedent’s age for RMD purposes. For widows and widowers whose deceased spouse was younger, this change allows them to defer RMDs past the normal start date.

Catch-up contributions for employees aged 60-63 have increased

- While catch-up contributions are available to all employees aged 50 or over, they are increased by 50% or $10,000, whichever is greater, for employees aged 60-63 effective in 2025. To illustrate, if the regular catch-up is $7,500 then the catch-up for employees aged 60-63 is $11,250.

Increased contribution limits for Qualified Longevity Annuity Contracts (QLACs)

- Individuals can purchase QLACs using funds from their IRA or retirement plans, which allows them to defer required minimum distributions beyond the normal starting date. Maximum lifetime transfers from tax-deferred accounts to QLACs have been increased to $200,000.

Retirement savings “lost and found”

- Within two years, the Department of Labor will establish an online portal to enable individuals to search for lost retirement accounts, such as a forgotten 401(k) with a prior employer.

For Small Business Owners

Small businesses receive tax credits for retirement plan contributions

- Effective in 2023, small businesses receive a tax credit for contributions made on behalf of non-highly compensated employees for the first five years the plan is in existence. The maximum credit is $1,000 per employee. Employers with up to 50 employees receive a full credit in year one; phase outs apply in years two through five and to those employers with 51-100 employees.

Increased tax credit for small businesses who start new retirement plans

- Beginning in 2023, a tax credit to small employers (up to 50 employees) for out-of-pocket costs related to starting a retirement plan is expanded, up to $5,000 for per year for three years. Employers of 51-100 employees can receive a partial credit up to $5,000.

Long-term part-time employees have the right to contribute to 401(k)s/403(b)s sooner

- Part-time employees who work at least 500 hours in three consecutive 12-month periods must be allowed to make elective deferrals to employer 401(k) plans effective now, and time is reduced to two 12-month periods beginning in 2024.

Employers can now make matching contributions on a Roth basis

- Effective now, employers can make matching contributions on an after-tax basis to employees’ Roth accounts. These contributions are considered taxable income to the employee.

Catch-up contributions are required to be made on an after-tax Roth basis

- Effective in 2024, all catch-up contributions made by participants with wages over $145,000 will be made to the plan's Roth account.

New in-plan emergency savings accounts

- Starting in 2024, non-highly compensated employees can contribute up to $2,500 in after-tax money to pension-linked emergency savings accounts. Funds can be accessed quickly and on a penalty-free basis. Employers can opt to automatically enroll participants at a rate of up to 3% of pay.

New small incentive allowance for contributing to a retirement plan

- Small de minimis incentives, such as low-dollar gift cards, can now be provided to employees to help improve participation in 401(k) and 403(b) plans.

New employer match contributions on behalf of employees who are repaying student loans

- While many employees are unable to save for retirement through their employer's plan because they are paying off student loans and therefore miss out on an employer match, beginning in 2024, employers are allowed to make matching contributions on behalf of these employees to 401(k), 403(b), 457, and SIMPLE IRA plans, even if the employees don't contribute to these plans. Employers can match the amount that an employee repaid to student loan debt during that year, up to the employee 401(k) deferral limit for that year, less any retirement plan deferrals. Employers can choose to direct matching contributions to the retirement plan or to the employee's student loan debt, or both, subject to plan limits. Employer matches on student loan debt repayments are tax-deductible against corporate income and exempt from FICA tax in the same manner as employer matches to a qualified retirement plan.

"Starter" 401(k)/403(b) plans

- This new plan design allows employers to create a plan account funded by employee contributions, where participants are auto-enrolled to contribute 3-15% of pay unless they opt out. Contribution limits for these "Starter" plans are equal to IRA contribution limits. These arrangements are not subject to top-heavy or discrimination rules, which reduces the administrative burden of maintaining a retirement plan.

This is only a partial list of new provisions and changes going into effect over the next few years. To learn more about how legislative changes may affect your financial strategy, contact your advisor for a discussion.