SECURE 2.0 Act: What individuals need to know

The Setting Every Community Up for Retirement Enhancement 2.0 Act of 2022 (SECURE 2.0) was signed into law on Dec. 29, 2022. This bill contains more than 90 provisions designed to strengthen the retirement savings system by extending and expanding savings opportunities and easing administrative requirements. The effective dates vary greatly, with some provisions effective immediately and others deferred several years into the future.

The passage of SECURE 2.0 has several important changes that could benefit your financial strategies, including:

- Increase in the required minimum distribution (RMD) beginning age to 73 in 2023 and 75 in 2033
- Higher contribution limits for certain individuals
- Additional Roth options
- Employer matches for qualified student loan payments
- Ability to roll over 529 assets to a Roth IRA for the 529 beneficiary
- New or expanded penalty exceptions for early withdrawals

Given these changes, it is important to discuss your strategy with your financial advisor and tax professional to see if any adjustments should be made.

The following are some of the highlights and what each potentially means to you:

1. RMD age increases to 73 in 2023 and 75 in 2033:

Birth Year	RMD beginning age
1950	72
1951 - 1959[1]	73
1960 or later	75

1.The RMD beginning age for individuals born in 1959 may be 73 or 75 based on the current language of the bill. Until clarification is received, we are assuming the RMD beginning age is 73.

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Other notable RMD changes include:

- Beginning in 2023, the penalty for missed RMDs is decreasing from 50% to 25%.
- Beginning in 2024, RMDs will no longer be required from Roth employer plan accounts, aligning them with the RMD rules for Roth IRAs.

What this means for you:

- If you do not need a distribution from your retirement account(s), you now have more time to earn tax-deferred growth before distributions are required.
- That said, you may still want to review your withdrawal strategy. If you have access to a combination of taxable accounts, traditional retirement accounts, and/or Roth retirement accounts, you may want to review which account(s)

is best to take distributions from considering your current tax situation and your desire to leave assets to your heirs.
- In addition, even though the RMD beginning age is increasing, the age at which you can take a qualified charitable distribution (QCD) from your traditional IRA remains 70½.

2. Additional opportunities for qualified charitable distributions (QCDs):

- Beginning in 2023, individuals aged 70½ or older can make a one-time QCD of up to $50,000 to entities previously ineligible to receive QCDs, including charitable remainder annuity trusts, charitable remainder unitrusts, and charitable gift annuities that meet certain criteria. Although we are awaiting regulatory guidance, we believe the $50,000 allowance is a subset of the $100,000 of QCDs that can be excluded from income annually (i.e., you cannot exclude $50,000 in addition to $100,000).
- Beginning in 2024, the $100,000 of QCDs that can be excluded from income annually will be adjusted for inflation.

What this means for you:

- If you're 70½ or older, you now have the flexibility to make a one-time QCD to certain entities that were previously ineligible to receive one. This flexibility allows you to reduce your taxable income in the year of donation (up to $50,000), while continuing to receive an income stream from the donated assets, taxed as ordinary income.
- To be eligible for the one-time QCD, the charitable entity must be exclusively funded with QCDs, and the income stream may only go to the donor or donor's spouse. Additionally, for a charitable gift annuity, fixed payments of 5% or more must start no later than one year from funding. Given these eligibility requirements, you should weigh the income benefits against the cost and complexity of setting up and funding one of these entities.

3. Higher limits and enhanced flexibility for contributions (generally):

- **For traditional and Roth IRAs:**
  - Beginning in 2024, the $1,000 catch-up contribution limit (available to individuals aged 50 or older) will be adjusted annually for inflation.
- **For SEP and SIMPLE plans:**
  - Beginning in 2023, SEP and SIMPLE plans can accept Roth contributions.
  - Beginning in 2023, SEP and SIMPLE plans can offer participants the option to receive a matching or non-elective contribution on a Roth basis.
  - Beginning in 2024, participants of eligible SIMPLE plans can contribute 110% of the normal contribution limits, including catch-up contributions.
  - Beginning in 2024, SIMPLE plans can make additional non-elective contributions up to 10% of compensation or $5,000, whichever is less.
  - Beginning in 2024, SIMPLE plans can make employer matches for qualified student loan payments.
  - Beginning in 2025, SIMPLE plan participants aged 60 - 63 can make higher catch-up contributions – the greater of $5,000 or 150% of the "age 50" catch-up limit.
- **For 401(k), 403(b), and governmental 457(b) plans:**
  - Effective immediately, employer plans can offer participants the option to receive a match or non-elective contribution on a Roth basis.
  - Beginning in 2024, employer plans can make employer matches for qualified student loan payments.
  - Beginning in 2025, participants aged 60 - 63 can make higher catch-up contributions – the greater of $10,000 or 150% of the "age 50" catch-up limit.

What this means for you:

- Most of these changes aren't effective until 2024 or later. Even those effective now may not be immediately available because it may take time for service providers to update their systems and processes to support these new features.

- Additionally, while the law allows employer plans to offer these options, they are generally not required to do so. As a result, access to the plan options generally depend on elections made by your employer.
- If these options become available to you, though, they may offer you the ability to save more for retirement or to save in different ways than you could before. Be sure to monitor your plan for potential changes, especially towards the end of the year. And, if you're uncertain whether they apply to your situation, your financial advisor can help.
- Also, if you receive an employer contribution on a Roth basis, keep in mind that you may owe taxes on those contributions. As a result, you may want to consider increasing your tax withholding or setting aside additional cash to avoid surprises at tax time.

Note: Potential issue for SEP and SIMPLE participants. The new bill appears to have created a potential issue for SEP and SIMPLE participants who also make Roth IRA contributions. Specifically, the amount a SEP or SIMPLE participant can contribute to a Roth IRA in a given tax year is reduced by the amount of SEP and SIMPLE contributions made in that tax year, regardless of whether the contributions were made on a pre-tax or Roth basis or whether the contribution was made by the employer or employee. While we believe this change was likely unintended, it is effective for the 2023 tax year unless further regulatory guidance is received. As a result, we recommend SEP and SIMPLE participants consult their tax professional before making a 2023 Roth IRA contribution.

4. Reduced flexibility for catch-up contributions for high-wage earners:

- Beginning in 2024, participants with wages above $145,000 are only allowed to make catch-up contributions to employer plans on a Roth basis.
- This requirement does not apply to catch-up contributions to traditional or Roth IRAs or to service-based catch-up contributions to 403(b) and governmental 457(b) plans.

What this means for you:

- This change is one of the few areas of SECURE 2.0 that's becoming more restrictive for retirement savers.
- That being said, saving on a Roth basis generates more after-tax retirement income than saving the same amount on a pre-tax basis. So, while this change results in fewer options for high-wage earners, it may help you progress toward your retirement goals more quickly.

5. Enhanced flexibility for unused 529 assets:

- Beginning in 2024, 529 account owners can roll over unused 529 assets to a Roth IRA for the 529 beneficiary, subject to certain criteria and limitations.
- The amount that can be rolled over annually is limited to the annual IRA contribution limit minus contributions made. For example, if the annual contribution limit is $6,000 and the 529 beneficiary has contributed $3,000 to their IRA that year, the maximum amount you can roll over to the 529 beneficiary's Roth IRA is $3,000. The lifetime limit is $35,000 per beneficiary.
- The 529 beneficiary must have taxable compensation to receive a 529 rollover; however, the income limits that normally apply for Roth IRA contributions are waived.

What this means for you:

- The intent of this change is to remove a barrier for education savings by providing greater flexibility for 529 assets if not needed for education expenses.
- While the enhanced flexibility is favorable, we have several questions about how this provision works. For example, one of the eligibility requirements is that the 529 account must be opened for at least 15 years prior to taking the distribution (to be rolled over); however, it's unclear whether the account must be opened and maintained for the 529 beneficiary for at least 15 years. We are awaiting further regulatory guidance.

6. New and expanded penalty exceptions for early withdrawals:

Penalty Exception	Effective Date	Availibility*	Limits
Qualified disaster distributions	Disasters occurring on or after Jan. 26, 2021	Plans and IRAs	Up to $22,000 (lifetime)
Expansion of Qualified Public Safety Employee (QPSE) exemption	Dec. 30, 2022	Plans only	N/A
Individuals with terminal illness	Dec. 30, 2022	Plans and IRAs	N/A
Personal or family emergency expenses	Jan. 1, 2024	Plans and IRAs	1 distribution per year, up to $1,000
Domestic abuse victims	Jan. 1, 2024	Plans and IRAs	Up to $10,000 (lifetime)
Premiums for qualified long-term care (LTC) contracts	Dec. 30, 2025	Plans only	Up to $2,500 annually

* The ability to take an in-service distribution for these situations depends on the terms of your plan.

What this means for you:

- SECURE 2.0 expands the situations in which you can avoid the 10% early withdrawal penalty.
- While it may be necessary to take early distributions in certain situations, it's important to understand the trade-offs of withdrawing money from your retirement accounts versus keeping it invested for your long-term goals. Your financial advisor can run different scenarios to highlight what might make the most sense for your unique situation.

7. Additional SECURE 2.0 changes that may apply to you:

- For military spouses employed by a small employer (100 employees or less): Beginning in 2023, new tax incentives are available to small employers to encourage military spouse participation in their employer retirement plan as well as employer contributions to military spouses.
- For part-time employees: Beginning in 2024, 401(k) and ERISA 403(b) plans must expand access to additional part-time employees. Part-time employees must be allowed to participate in the plan if they have at least one-year of service with 1,000 or more hours worked or three consecutive years of service with 500 or more hours worked each year. In 2025, coverage for part-time workers will be further expanded – those with two consecutive years of service with 500 or more hours worked each year (instead of three) will be eligible.
- For qualified birth and adoption distributions (QBAD): Effective immediately, recontributions of QBADs will be limited to three years. If you took a QBAD before the passage of SECURE 2.0, you may recontribute the QBAD before Jan. 1, 2026.
- For 529 ABLE accounts: Beginning in 2026, the age by which blindness or disability must occur to qualify for an ABLE account increases from 26 to 46.

- For individuals who qualify for the Saver's credit: Beginning in 2027, the Saver's credit will be modified. It will be refundable (meaning you could receive the credit even if it was larger than the amount of taxes you owed), but it will generally be paid as a match to your pre-tax retirement account instead of cash.

Partner with your financial advisor and tax professional

Together with your financial advisor, you can discuss how the above items may affect your current situation and your long-term financial goals. Your financial advisor can help you determine if any adjustments need to be made to your strategy, whether because of the above rule changes or simply based on how you are progressing toward your goals, to ensure you're on track toward retirement security. In addition, since many of these changes take effect over the next several years, it is important to partner with your financial advisor to periodically review your situation over time.

As with any decision involving taxes, consult with your tax professional on considerations and impacts to your specific situation, as your financial advisor cannot provide tax advice.

Timeline of SECURE 2.0 effective dates

2023 or earlier	2024	2025 or later
RMD age increases to 73	No RMDs from Roth plan accounts	Higher "age 60-63" catch-up limit for plans (2025)
RMD penalty decreases to 25%	QCD $100,000 annual limit adjusted for inflation	New penalty exception for eligible LTC contracts (12/30/25)
One-time QCD to CRATs, CRUTs, CGAs	IRA $1,000 catch-up adjusted for inflation	Expanded eligibility for 529 ABLE accounts (2026)
Roth allowed for SEP & SIMPLE plans	110% contribution limit for eligible SIMPLE plans	Saver's credit refundable and paid as match (2027)
Roth allowed for matches & non-elective contributions	Up to 10% additional non-elective contributions allowed for SIMPLE plans	RMD age increases to 75 (2033)
Permanent penalty exception for federal disasters	Employer matches permitted for qualified student loan payments	
Expansion of QPSE penalty exception	Plan catch-ups limited to Roth for high-wage earners	
New penalty exception for terminal illness	529 rollover to Roth IRAs allowed	
New incentives for employers to increase military spouse participation in plans	New penalty exception for emergency expenses	
3-year recontribution deadline implemented for QBADs	New penalty exception for domestic abuse victims	

Legend

- RMD- & QCD-related changes
- IRA contribution changes
- Plan contribution changes
- 529 rollover change
- Penalty exception changes
- Other changes

Quarterly market outlook

Our view on key market and economic topics to help you make decisions affecting your financial strategy.

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Important Information:

This is for informational purposes only and should not be interpreted as specific investment advice. Investors should make investment decisions based on their unique investment objectives and financial situation. While the information is believed to be accurate, it is not guaranteed and is subject to change without notice.

Before investing in bonds, you should understand the risks involved, including credit risk and market risk. Bond investments are also subject to interest rate risk such that when interest rates rise, the prices of bonds can decrease, and the investor can lose principal value if the investment is sold prior to maturity.

Investors should understand the risks involved in owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates and investors can lose some or all of their principal.

Past performance does not guarantee future results.

Market indexes are unmanaged and cannot be invested into directly and are not meant to depict an actual investment.

Diversification does not guarantee a profit or protect against loss in declining markets.

Systematic investing does not guarantee a profit or protect against loss. Investors should consider their willingness to keep investing when share prices are declining.

Dividends may be increased, decreased or eliminated at any time without notice.

Special risks are inherent in international investing, including those related to currency fluctuations and foreign political and economic events.

Market Data

DJIA 33,967.42 ↓ (-335.19)

S&P 500 3,996.32 ↓ (-2.77)

NASDAQ 11,085.83 ↑ (+6.67)

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