SECURE 2.0 Act of 2022 may help Americans better prepare for retirement

Wealth Management

Nearly three years following the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, another major piece of legislation was signed into law on December 29, 2022—the SECURE 2.0 Act of 2022. The new legislation builds upon many aspects of the original SECURE Act, with changes designed to expand and preserve retirement savings, simplify rules and enhance legacy planning. Under SECURE 2.0 Act, the most significant changes include:

Increase in age for the mandatory start date for required minimum distributions

The age at which required minimum distributions (RMDs) must be taken from retirement plan accounts (the required beginning date, or RBD) has increased from age 72 to age 73.

This change applies to individuals who reach age 72 after 2022 and age 73 before 2033. For example, if an individual turns 72 in 2023, he or she can wait until next year to begin taking RMDs.

For individuals who reach age 74 after 2032, the RBD increases to age 75 in 2033. (Note that the SECURE Act previously increased the RBD from age 70 ½ to age 72.)

For those who do not want or need distributions from their retirement accounts, these changes provide additional time for tax-deferred growth of their investments.

Catch-up contribution limits to IRAs by individuals age 50 and older were increased

IRA owners 50 and older will be able to contribute more to their individual retirement accounts.

Under prior law, taxpayers older than age 50 were only permitted catch-up contributions of up to $1,000.

Under SECURE 2.0 Act this amount will be inflation-adjusted annually beginning 2024. Note that the catch-up contribution amounts (see below) for qualified plans are already inflation-adjusted under existing law.

Also note, SECURE 2.0 Act requires that IRA catch-up contributions by individuals with over $145,000 in prior year wages generally must be made on an after-tax basis (i.e., to a Roth IRA).

Effective date: Beginning in 2024

Catch-up contribution limits to qualified plans by individuals ages 60–63 were increased

Increases are allowed in catch-up contribution limits to qualified retirement plans—401(k), 403(b) or governmental 457(b) plans—by individuals between ages 60 and 63.

Like IRAs, there are annual limits on contributions to qualified plans. Under existing law, taxpayers older than age 50 can make annual catch-up contributions in specified amounts (the standard catch-up amount). The catch-up amount was $6,500 in 2022 and is $7,500 in 2023.

Under SECURE 2.0 Act, taxpayers between the ages of 60 and 63 will be permitted a catch-up amount equal to the greater of: $10,000 or 150% of the standard catch-up amount permitted in 2024.

SECURE 2.0 Act requires that qualified plan catch-up contributions by individuals with over $145,000 in prior year wages generally must be made on an after-tax basis (i.e., to a Roth account).

Effective date: The additional catch-up amount will be available starting in 2025 and will be inflation-adjusted beginning in 2026

Rollovers now permitted from eligible 529 plans to Roth IRAs

Eligible 529 plan account owners will be able to rollover 529 plan account assets to a Roth IRA without being subject to taxes or penalties.

A 529 plan account is a tax-exempt account created, funded and administered for the purpose of paying qualified educational expenses of a designated beneficiary. If account funds are used to pay such expenses, no taxes or penalties are owed. However, when funds are distributed for other purposes, such amounts are subject to income taxes and a 10% penalty.

Under SECURE 2.0 Act, beginning in 2024, eligible 529 plan account owners can roll over up to $35,000 (a lifetime limitation) from their 529 plan account to a Roth IRA which is owned by the account's designated beneficiary.

To qualify, individuals must meet several requirements:

- The 529 plan account must have been open for at least 15 years
- The rollover amount must fall within the annual limits on contributions to Roth IRAs (reduced by any other traditional or Roth IRA contributions made that year)
- The designated beneficiary must have compensation income which is at least equal to the rollover amount
- Contributions made to the 529 plan account in the last five years are ineligible for rollover

While this is a change that could be useful in certain circumstances, the requirements may make rollovers unavailable to many taxpayers.

Effective date: Beginning in 2024

Favorable changes to IRA qualified charitable distribution rules

The rules regarding distributions from IRAs to charity have become more favorable.

Under prior law, taxpayers age 70 ½ and older have been able to make up to $100,000 in annual distributions from their IRA account directly to one or more charitable organizations (referred to as qualified charitable distributions or QCDs). This $100,000 limit was a fixed amount.

Under SECURE 2.0 Act, the $100,000 limit is now inflation-adjusted. In addition, SECURE 2.0 Act permits eligible IRA owners to make a one-time QCD of up to $50,000 from an IRA directly to a charitable gift annuity or charitable remainder trust.

A charitable gift annuity is a contract between an individual and a charity which provides immediate or deferred annuity payments to one or more individuals for a term of years or a life or lives. A charitable remainder trust is a special type of irrevocable trust that provides for regular payments to one or more individuals for a term of years or for a life or lives. The payments can be fixed in amount (an annuity trust) or can vary based on the changing value of the trust assets (a unitrust). Upon expiration of the trust term, the remaining assets are then given to one or more charitable organizations.

Effective date: January 1, 2023

Roth qualified plans no longer subject to pre-death RMDs

Owners of Roth IRAs are not required to take RMDs. However, under prior law, that was not the case with Roth qualified plans, which were subject to pre-death RMDs. As the result of SECURE 2.0 Act, beginning 2024, qualified plan participants owning Roth retirement accounts will no longer be required to take RMDs before death.

Effective date: Beginning in 2024

Payment of long-term care insurance premiums now permitted

Distributions from traditional IRAs and qualified plans are generally subject to income taxation, plus an additional 10% penalty for taxpayers under the age of 59 ½.

Under SECURE 2.0 Act, retirement plan distributions will be permitted for the payment of premiums on specified high-quality long-term care insurance contracts without being subject to the additional 10% penalty for taxpayers under the age of 59 ½. This provision takes effect at the end of 2025.

The maximum amount which can be annually distributed under this provision is equal to the lesser of the following:

- The annual premium amounts
- 10% of the employee's vested balance in the retirement account
- The sum of $2,500 (inflation adjusted beginning in 2025)

Effective date: End of 2025

Special needs trusts can now have charitable remainder beneficiaries without jeopardizing stretch RMDs

More favorable tax treatment is now available for special needs trusts having one or more charitable remainder beneficiaries.

A special needs trust is a special type of irrevocable trust created for the benefit of a disabled beneficiary. Under prior law, naming a charity as the remainder beneficiary of a special needs trust precluded lifetime stretch distributions from retirement plan accounts. Under SECURE 2.0 Act, a special needs trust can now qualify for lifetime distributions based on the life expectancy of the disabled beneficiary, even if the ultimate remainder beneficiary of the trust is one or more charitable organizations.

Effective date: January 1, 2023

As updates and guidance from the IRS or other government entities become available, your RBC Wealth Management financial advisor will provide more information to you.

Please consult with your financial advisor, attorney and CPA to review your wealth plan and to determine if any strategies are appropriate for your situation.