Buckingham

SECURE Act 2.0 Changes

What *pre-retirees* need to know

Overview

On Dec. 29, 2022, the SECURE Act 2.0 was signed into law as a part of a larger $1.7 trillion spending bill. SECURE Act 2.0 included nearly 100 changes to rules governing retirement accounts, making it difficult for individuals to figure out just how they may be impacted. To help you understand the changes that may impact your retirement savings plan, below is a summary of some of the provisions that are most likely to affect pre-retirees. As always, we encourage you to reach out to your advisor for a more detailed discussion of how these, or other changes, may impact your personal situation.

Required Minimum Distributions (RMDs)

- Your employer may now offer a Roth SEP or Roth SIMPLE IRA as part of a retirement plan.
- Your employer may allow you to elect to have any matching and/or profit-sharing contributions to a plan Roth account.
- Beginning 2024, if your wages in the previous year were more than $145,000, catch-up contributions to 401(k), 403(b) and similar plans must be made to a Roth account. If the employer does not offer a Roth option within the plan, no catch-up contributions will be allowed.

529-to-Roth IRA Transfers Allowed (Beginning in 2024)

- The beneficiary of the 529 account must be the same as the Roth IRA owner.
- Not permitted unless the 529 account has been open for 15 years or longer.
- Contributions made within the past five years, as well as the earnings on such contributions, are not eligible to be transferred in this manner.
- Annual transfers are limited to the annual IRA contribution limit (without regard to Roth IRA income restrictions), less any contributions made directly to the recipients' IRA and/or Roth IRA.
- No more than $35,000 may be transferred to an individual's Roth IRA in this manner during their lifetime.

Catch-Up Contribution Limits Increased

- Beginning 2024, IRA catch-up contributions will be adjusted for inflation annually.
- Beginning 2025, only individuals ages 60, 61, 62 and 63 will be eligible to make larger catch-up contributions to 401(k)s, 403(b)s and similar plans, as well as to SIMPLE IRA plans.

Early Access to Retirement Funds

- New exception for the terminally ill, defined as persons reasonably expected to die within seven years.
- Beginning 2024, new Emergency Withdrawal exception for up to $1,000.
- Beginning 2025, up to $2,500 (or 10% of account balance, if less) can be used to purchase long-term care insurance without incurring a penalty.
- Private sector fire fighters, state and local corrections employees and state and local public safety workers are now eligible for the age 50 public safety worker exception.
- Retroactive to Jan. 26, 2021, individuals living in federally declared disaster areas are eligible for Qualified Disaster Distributions of up to $22,000, as well as enhanced plan (e.g., 401(k)) loans.
- Beginning 2024, employers will be able to offer new, tax-preferenced Emergency Savings Accounts.

Additional Provisions

- Beginning 2026, ABLE Accounts may be established for individuals who are disabled prior to age 46 (increased from age 26).
- In its initial year only, a new Solo-401(k) plan can accept retroactive deferrals (deferrals for the previous year) until the individual tax return due date, not including extensions.
- Qualified Annuity Contracts (QLACs) may now be purchased with up to $200,000 of an individual's retirement funds.
- Beginning in 2027, the Saver's Credit will be replaced by the Saver's Match, a contribution made by the IRS to a pre-tax retirement account of up to 50% of the first $2,000 you contribute to a retirement account during the year.
- Governmental 457(b) deferrals can now be updated at any time.