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What You Need to Know About the SECURE 2.0 Act

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Just when you thought you had an up-to-date retirement plan that accounts for all the changes of the Setting Every Community Up for Retirement (SECURE) Act of 2019, Congress wrapped up 2022 with the SECURE 2.0 Act.

Former President Joe Biden signed the 4,000-plus-page bill into law on December 29. Its 92 provisions affect consumers, businesses, and plan sponsors. Note that this article is provided for summary purposes and does not include all provisions in SECURE 2.0.

SECURE 2.0 builds on the 2019 act by improving access to retirement plans and expanding the paths for contributing to 401(k)s, Roths, and IRAs. The new legislation creates opportunities to save for millions of individuals at or near retirement age as well as those just entering the workforce. There are dozens of provisions that benefit specialized groups such as private-sector firefighters, military spouses, surviving spouses, disabled employees, students, domestic employees, and victims of domestic abuse.

Some changes start this year, while others are delayed to future years. Here are some of the highlights of SECURE 2.0:

- **Big changes for required minimum distributions (RMDs)**
  The age that you must begin making minimum withdrawals is increased from 72 to 73 immediately and increases again to 75 in 2033. Beginning in 2024, RMDs were no longer required for Roth accounts in employer retirement plans.
- **Catching up more quickly**
  Beginning in 2025, some employees in their early 60s will be able to make larger catch-up contributions to several kinds of retirement accounts.
- **New rules for student loan payments**
  Beginning in 2024, employers could make matching contributions to workers' retirement accounts based on qualifying student loan payments.
- **Rollovers from 529 accounts to Roth IRAs**
  Effective in 2024, 529 assets that meet certain requirements can be rolled over into a Roth IRA for the beneficiaries.
- **Mandatory participation in employee retirement plans**
  Beginning in 2025, most new 401(k) and 403(b) plans will have to provide automatic enrollment for new employees. Employees can request to opt out and many small companies and government and religious plans won't be affected.
- **Expansion of coverage for part-time workers**
  Beginning in 2024, the law increased the number of part-time employees eligible for employer 401(k) or 403(b) plans by reducing the work requirement to two consecutive years of 500 hours of service, down from the previous requirement of three years of 500 hours annually or one year of 1,000 hours.
- **More exceptions for early withdrawals**
  Restrictions on distributions before age 59½ will be loosened for many public safety workers, employees affected by disasters, and domestic abuse victims, among others. This will provide many more penalty exceptions. However, amounts withdrawn will still be subject to income taxation.
- **An increase in qualified charitable distributions (QCD) amount**
  Beginning in 2024, the maximum annual amount allowed for QCDs was indexed for inflation instead of being limited to $100,000. There also is a one-time opportunity to use a QCD to fund several kinds of split-interest charitable trusts.
- **Emergency savings plans**
  Employees who are not highly compensated will be eligible to participate in an Emergency Savings Account that will be linked to an existing employer retirement plan in which funds can be withdrawn penalty free during an emergency.
- **Pooled Employer Plan (PEP)**
  A PEP is a retirement plan that allows multiple employers from unrelated industries, regardless of size, to join a single pooled retirement plan. A PEP provides several benefits to the "adopting employer" including reduced cost as well as transferring most of the compliance, administrative, and fiduciary responsibilities to a third party. SECURE 1.0 allowed PEPs to be created for 401(k) plan sponsors. Secure 2.0 has opened up PEPs to 403(b) plan sponsors as well.

Here's a timeline for when these and other provisions of SECURE 2.0 take effect:

Effective in 2023

- The age for required minimum distributions increased from 72 to 73.
- SIMPLE IRAs can accept accept Roth contributions and employers can offer employees the ability to treat employee and employer SEP contributions as Roth (in whole or in part).
- Public safety officers can exclude up to $3,000 of retirement benefits to pay for health insurance.
- Employers and plan providers can offer "de minimis financial incentives" such as gift cards for employees to sign up for a plan.
- The penalty for failure to take RMDs are reduced from 50% to 25% and are further reduced to 10% if the failure is corrected promptly.
- Defined contribution plans can provide participants with the option of receiving matching contributions on a Roth basis.
- New rules apply for annuities in employer-sponsored plans include an increase to a maximum of $200,000 that can be used to purchase qualified longevity annuity contracts (QLACs) and the elimination of certain IRS barriers to the distribution of annuity benefits.
- Taxpayers can use a qualified charitable distribution of up to $50,000 each to make a one-time distribution to a charitable split-interest trust, but there are numerous restrictions, so check with your financial advisors.
- Non-highly compensated employees can contribute up to $2,500 annually to an emergency savings account linked to an existing employer retirement plan that they can access for emergency use without penalty.

Effective in 2024

- Limits on catch-up contributions to traditional and Roth IRAs automatically begin to adjust for inflation in increments of $100.
- Catch-up contributions to qualified retirement plans for high-income taxpayers are subject to Roth tax treatment. There's no pre-death RMD requirement for Roth-related retirement accounts.
- Employers can begin treating student loan debt payments by employees as an elective salary deferral for matching contribution purposes and contribute the allowed amount to the employees' retirement savings accounts.
- The maximum allowable qualified charitable distribution is indexed for inflation. An exception for penalty-free distribution from a retirement account for some emergency expenses kicks in, but only one exception per year of not more than $1,000.
- Domestic abuse survivors can withdraw up to $10,000 from a retirement account without an early distribution penalty.
- Retirement plans known as Starter 401(k)s are available for small businesses to offer employees who are at a 3% to 15% compensation deferral rate.
- Beneficiaries of certain 529 savings plans for education expenses can begin transferring unused funds, up to a lifetime maximum of $35,000, into a Roth IRA if the 529 account has been active for at least 15 years.
- Contribution and catch-up limits are raised for SIMPLE IRA plans, available only to companies with 100 or fewer people. Companies with 25 or fewer employees can increase the limits by 10% when workers reach age 50. Companies with 26 to 100 employees must meet certain conditions to provide the increases.

Effective in 2025

- Companies that have been in existence for three or more years with 10 or more employees must begin automatic enrollment for new employees in company-sponsored retirement plans. Contributions must be at a rate of at least 3% compensation, which will increase annually. Retirement plans started after December 29, 2022, must increase their contribution percentages by at least 1% annually, up to at least 10% but no more than 15%.
- Coverage will be improved for part-time employees. Reduces the three-years-of-service rule to two years of service of at least 500 hours to participate in a company's retirement plans.
- Catch-up contribution limits for retirement plans will be increased for employees in 401(k) or 403(b) plans who are ages 60 to 63. That limit will be increased from $6,500 to the greater of $10,000 or 150% of the catch-up amount.

Effective in 2026

- Catch-up contributions to qualified retirement plans for high-income taxpayers are subject to Roth tax treatment.

Effective in 2027

- Lower-income employees will be eligible for a federal Saver's Match contribution of up to $1,000 (50% of their contributions up to a maximum of $2,000) to their retirement savings accounts. The benefit is phased out at higher income levels and full-time students won't be eligible. This is an update from the government's current Saver's Credit program.

Effective in 2033

- The RMD age will increase to 75.

Many of these provisions are greatly detailed and contain numerous exceptions, income limits, or other requirements. Please contact your relationship manager on how this might impact your retirement program.

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About the Author

Craig Greenwald is a Senior Vice President and the National Director of Retirement Solutions at KeyBank. In this role, Craig is responsible for leading our client experience and new client acquisition strategy for pension funds and retirement solutions. Craig has over 25 years of experience with deep expertise in defined benefit pension programs, defined contribution retirement programs, retiree medical benefits, reinsurance, and captive insurance arrangements.

Craig has had the opportunity to work with clients in several industries including energy, utilities, healthcare, transportation, education, banking, manufacturing, retail, non-profit, and public sector. Craig is a credentialed retirement actuary as a Fellow of the Society of Actuaries (FSA), Enrolled Actuary (EA), and Member of the American Academy of Actuaries (MAAA).

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About the Author

In her role, Tina Myers is responsible for managing the Central Planning Team and overseeing the Key Wealth Institute and any financial planning content distributed. She works with our Regional Planning Strategists to help facilitate our best thinking and advice delivery to clients.

Before joining Key, Tina worked in the public accounting industry, where she focused on taxes, specifically individual, trust, estate, and gift tax planning. She also held roles at a small public accounting firm, a regional firm, and the private client group of a large multi-national firm.

Tina earned an M.Tax from Virginia Commonwealth University and holds several industry-standard licensures. She received the Circle of Excellence Award for Key Private Bank in 2016 and 2018. She was selected to attend the 2024 Key Wealth Education Symposium, which recognizes top performance and extraordinary commitment to serving our clients and growing our business.

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