PATRICK H. YANKE, CFP® | Financial Planning

SECURE Act 2.0

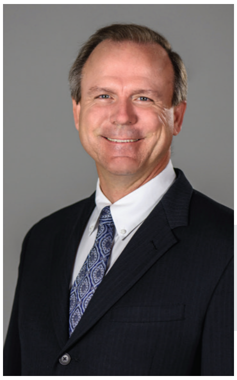
Another year, another SECURE Act. The new SECURE 2.0 was signed into law December 29, 2022, clarifying some content from the original legislation and also expanding into new territory. There are many provisions touching employers, savers, retirees and even young adults. While we await official guidance in some areas, here are some provisions that haven't received much press.

INCREASED RMD AGE

Under the original SECURE Act, the required minimum distribution (RMD) age was increased from 70.5 to 72 for employees born after June 30, 1949. The RMD age will be further increased to 75 by 2033 in steps. There are details yet to be hammered out in this section for individual applicability, so we'll have to take each year as it comes until the rules are finalized.

WITHDRAWAL FOR FEDERALLY DECLARED DISASTERS

The act provides permanent disaster withdrawal rules for defined-contribution plans—like 401(k)s—and IRAs that opt to permit disaster withdrawals. The taxable withdrawal amount is included in income over three years and may even be returned to the plan within those three years. The withdrawal is exempt from the 10% early withdrawal penalty and mandatory 20% Federal withholding. The maximum withdrawal amount is $22,000 per disaster. This can help standardize the rules in affected areas and make funds more readily available.



HIGHER CATCH-UP LIMIT FOR AGES 60-63

The catch-up contribution limit for 401(k), 403(b), and governmental 457(b) plans has been increased for individuals aged 60 through 63 to the greater of $10,000 or 150% of the regular catch-up contribution limit for 2024 (indexed for inflation). For SIMPLE plans, individuals 60 through 63 years old will be able to make catch-up contributions up to the greater of $5,000 or 150% of the regular catch-up contribution limit in 2025 (indexed for inflation).

MATCHING STUDENT LOAN PAYMENTS

Beginning in 2024, employers will have the option to match student loan payments as if they were payments to a qualified retirement plan. Under the new law, loan payments will be treated as elective deferrals just like contributions. This allows eligible employees of employers who choose to offer this match, to make saving for retirement a priority and not miss out on matching contributions for their retirement plans.

The loan payment must be for a qualified student loan (according to IRS guidelines) that was taken out to pay for higher education costs—like tuition, fees, books or expenses—for the employee, a spouse or a dependent. Loans used for expenses like room and board, non-credit courses, and sports are not eligible. The student must also have been enrolled at least half-time in a program that leads to a certificate or degree. There is no requirement that the student must graduate.

ROLLOVERS FROM 529 PLANS TO ROTH IRAS

The designated beneficiary of a 529 account that has been maintained for at least 15 years may request a tax-free direct rollover to a Roth IRA for the same designated beneficiary—excluding the most recent five years of contributions to the 529 account. The rollover amount in any given year is subject to the same limits as contributions—currently limited to includable compensation up to $6,500/yr. The maximum lifetime rollover limit is $35,000. For unused education savings, this can give a young saver a boost toward retirement.

GREATER QLAC OPPORTUNITIES

A Qualified Longevity Annuity Contract (QLAC) allows IRA distributions to be delayed until a pre-determined payout date—but no later than the person's 85th birthday. This has the effect of lowering early RMD withdrawals and increasing later lifetime income.

Rules in the 2019 legislation that created the original SECURE Act limited the tax-deferred investments into a QLAC to $125,000 (with adjustments for inflation) or 25% of the account, if lower. New rules allow up to $200,000 of tax-benefitted savings toward a QLAC, and the percentage-of-savings requirement has been removed.

Having an awareness of the changes is the start of making use of them in a financial plan. Please consult an appropriate professional for more information on any of the provisions above.

Patrick Yanke is a Raleigh-based financial advisor. Opinions expressed here are mine and not necessarily those of Raymond James. The information is not a complete summary or statement of all data necessary for making an investment decision and does not constitute a recommendation. Please consult with appropriate professionals for tax and legal issues. www.yankefinancial.com.