Beacon Trust
INNOVATING WEALTH STRATEGY

SECURE Act 2.0: What You Need to Know

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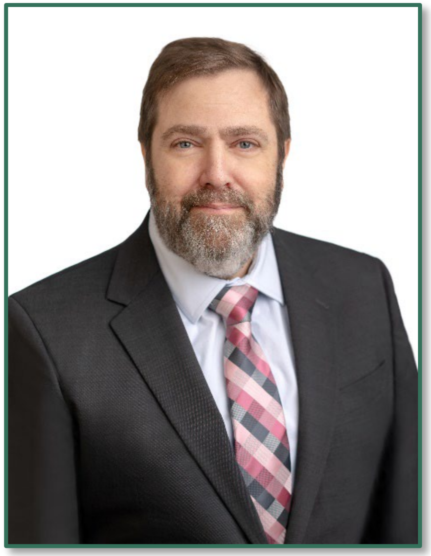

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SECURE Act 2.0 of 2022

- The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 changed existing rules around retirement savings, including raising the age of required minimum distributions (RMDs) and eliminating age limits for traditional IRA contributions
  - Original SECURE Act was passed on December 20, 2019
- SECURE 2.0 is an assortment of items advocated by retirement industry groups to increase opportunities for more people to save for retirement
  - Signed into law on December 29, 2022, almost 3 years exactly after Congress passed the original SECURE Act

Required Minimum Distributions (RMD)

- Increase in Required Minimum Distributions (RMD) Age to **73** (in 2023), then to **75** (in 2033)

Age 72	Born 1950 or earlier
Age 73	Born 1951 – 1959
Age 75	Born 1960 or later

Inherited IRA Distribution Rules

- SECURE 2.0 Act did not provide a fix for the 10-year rule problem!
- Old law (before the original SECURE Act):
  - "Stretch IRA" applied to all designated beneficiaries: it allows the beneficiary to "stretch" the IRA and spread out RMDs over his or her own life expectancy
- SECURE Act of 2019:
  - "Stretch IRA" is eliminated; replaced with the 10-year rule where all funds in the inherited IRA must be withdrawn by the end of the 10th year after death
    - Applies to most non-spouse beneficiaries, except for "Eligible Designated Beneficiaries"
    - Most interpreted this to mean that you could choose when and how to take distributions from your inherited IRA, rather than annual RMDs, as long as the full balance was withdrawn by the end of the 10th year after death

At Least as Rapidly Rule (ALAR)

- Per IRS proposed regulations, when death occurs on or after the required beginning date (RBD), At Least as Rapidly Rule (ALAR) applies
  - Once RMDs begin, they cannot be turned off and must continue
  - Does not require the same amount that was taken by the IRA owner to also be taken by the beneficiary
- Per 2022 IRS Proposed Regs:
  - Beneficiaries subject to the 10-year rule, who inherit from someone who dies ***on or after the required beginning date (RBD)***, ***must take annual RMDs for years 1-9, AND the 10-year rule also applies***
- Translation: Both ALAR and the 10-year rule apply when death is on or after the RBD

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Inherited IRA Distribution Example

IRS Proposed Regs Issued 2-23-22

- **IRA Example:** IRA owner dies at age 75 (after the RBD), and his beneficiary is his son, age 50. The son is a designated beneficiary and is subject to the 10-year rule but must also take "stretch IRA" RMDs for years 1-9, since death was after the RBD.
- ***RMDs will be required for years 1-9, and the balance must be withdrawn by the end of the 10-year term!***

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Inherited IRA Distributions for 2021 & 2022

RMD Rule Update

IRS Notice 2022-53

- Transitional relief issued by the IRS on October 7, 2022, in response to confusion after proposed regulations
- Waives the 50% penalty on missed **2021** and **2022** inherited retirement RMDs within the 10-year payout rule
- **2023 Effect**: These missed RMDs do **not** have to be made up when calculating 2023 RMD amounts

Note: IRS still must issue final regulations – but now that Congress chose not to correct or clarify this, it seems more likely that IRS will stick to its position requiring beneficiary RMDs for years 1-9.

Eligible Designated Beneficiaries (EDBs)

- Eligible designated beneficiaries (EDBs) can still stretch their inherited IRAs – 5 classes:
  1. Surviving spouse
  2. Minor children, up to the age of majority (age 21-regardless of state law – Per IRS Regs. released on 2-23-22) – but NOT grandchildren
  3. Disabled individuals – under the strict IRS rules
  4. Chronically ill individuals
  5. Individuals not more than 10 years younger than the IRA owner

Effective date: For deaths after 2019. For deaths in 2019 or prior years, the pre-SECURE Act “stretch IRA” rules would still apply.

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RMD Penalty Changes

- Reduced the RMD penalty from 50% to 25%, and is further reduced to 10% if timely corrected by making up the missed RMD

"Timely" means corrected within 2 years (unless the penalty is assessed earlier).
However, IRS penalty waivers on Form 5329 can still be requested.

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Roth 401(k) RMDs Eliminated

- Beginning in 2024, Roth 401(k)s will *no longer be subject to lifetime RMDs*

- Roth IRAs were never subject to lifetime RMDs, and now employer plans will have the same benefit

Expanded 10% Penalty Exceptions

- Expanded 10% penalty exceptions for early withdrawals

	Limit	Plans	IRAs	Effective Date
Financial emergencies	$1,000	X	X	2024
Pension linked savings account	$2,500	X		2024
Domestic abuse	$10,000	X	X	2024
Terminal illness		X	X	2023
Federally declared natural disasters	$22,000	X	X	2021
Long-term care	$2,500	X		3 years after enactment (generally 2026)
Public safety employees		X	X	2023

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No 10% Penalty on Removing Excess IRA Contributions

- When contributions to an IRA are in excess of the contribution limit:
  - The IRS will charge you a 6% penalty on the excess amount for each year in which you don't take action to correct the error
  - If you're under 59 ½, you'll be subject to a 10% early withdrawal penalty
- Under SECURE 2.0, the net income attributable (NIA) is no *longer subject to the 10% early distribution penalty* if the individual is under age 59 ½
- However, the NIA is taxable for the year of the excess contribution, not the year of the distribution as ordinary income

Catch-Up Contributions

- Increased catch-up contributions for plans
  - Only for those age 60-63
  - Not effective until 2025
  - Catch-up amount is 150% of 2024 regular catch-up amount (adjusted for inflation)
  - SIMPLE IRA limit is 150% of 2025 regular catch-up amount (adjusted for inflation)

- $1,000 IRA catch-up contribution amount (for those age 50 or over) will be indexed for inflation increases
  - Beginning in 2024, in $100 increments

Student Loan Repayments and 529 Plans

- Student loan repayments can qualify for matching 401(k) contributions by the employer, even if the employee does not make direct 401(k) contributions
- Rollovers from 529 plans to Roth IRAs – limited to $35,000
  - Must go to beneficiary's Roth IRA
  - 529 must have been in existence for 15 years
  - 529 contributions made in the last 5 years don't qualify
  - Limited to annual IRA contribution amounts (cannot use the full $35,000 in one year)

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Expanded Roth Options

- Allows for the creation of SEP and SIMPLE Roth IRAs
- Matching contributions can go to the Roth 401(k)
- Plan catch-up contributions must go to Roth 401(k)
  - If wages from the company for the prior year exceeds $145,000 (effective in 2024)

Qualified Charitable Distributions (QCD)

- A Qualified Charitable Distribution (QCD) allows individuals to donate up to $100,000 total to multiple charities directly from a taxable IRA account. This can be an alternative to taking your RMD.
- Beginning in 2024, the annual $100,000 limit will be increased for inflation
- One-time $50,000 QCD allowed for split-interest entities such as Charitable Remainder Trusts (CRTs)
  - Effective in 2023
- **No change in QCD age** –it is still age 70 ½ (even though RMD age increased to 73, and 75)

Auto Enrollment and IRA Prohibited Transactions

- **Auto enrollment in new 401(k) and 403(b) plans**
  - Not effective until 2025

- **IRA prohibited transaction treatment** – limited only to the IRA account with the prohibited transaction
  - This confirms prior treatment

IRA Annuity Benefits Expanded

- Qualified Longevity Annuity Contracts (QLACs)
  - Limit increased to $200,000, inflation-adjusted, and the 25% test is eliminated

- Income annuities within a plan or IRA can now offer additional benefits *without violating any RMD rules*
  - Benefits and options now allowed:
    - Guaranteed increases (up to 5%)
      - Lump-sum payments
      - Accelerated payments
      - Return-of-premium death benefits

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Applicable Multi-Beneficiary Trusts (AMBTs)

- Special Needs Trusts: Applicable Multi-Beneficiary Trusts (AMBTs) created by the original SECURE Act
  - Under the SECURE Act, the ability to use the stretch for chronically ill or disabled beneficiaries requires an AMBT
  - The AMBT can have other beneficiaries of the trust besides the disabled or chronically ill beneficiary
  - The other beneficiaries (other than the disabled or chronically ones) do not have to be “eligible designated beneficiaries,” but they all have to be designated beneficiaries
  - This would normally include individuals with a life expectancy but would exclude entities like a charity or an estate
  - Now under SECURE 2.0: A trust with a charity as a designated beneficiary will meet the AMBT requirements

Applicable Multi-Beneficiary Trust Example

- Brian names a special needs trust for the benefit of his disabled son, Christopher, as the beneficiary of his IRA. After Christopher's death, any remaining funds from the IRA are to be paid to a local charity.
- This is ok under SECURE 2.0, since the charity is a designated beneficiary, and the trust will still qualify as an applicable multi-beneficiary trust
- This means that ***stretching the RMDs over Christopher's life expectancy will be allowed***

Inherited Roth IRA Distribution

<u>IRS Proposed Regs Issued 2-23-22</u>

- All Roth IRA owners are deemed to have died before their RBD, so Roth designated beneficiaries will **not** have to take RMDs for years 1-9
  - They can wait until the end of the 10-year term to withdraw the balance in the inherited Roth account. **Big Roth IRA advantage!**
- **Roth IRA Example**: Roth IRA owner dies at age 75, and his beneficiary is his son, age 50. The son is a designated beneficiary and is subject to the 10-year rule. **No distributions are required until the end of the 10-year term**, since death was before the RBD, regardless of the age of the deceased Roth IRA owner.
- **Caution!** 5-year rule if no designated Roth beneficiary

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Questions?

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