New Rules Open Opportunities for Retirement Savings

Congress has enacted legislation to provide plan participants more flexibility in building their retirement nest eggs.

Almost three years after passing the so-called Secure Act, lawmakers in Washington, D.C., recently moved to beef up many of those provisions. The enactment of what's been dubbed as Secure 2.0 promises greater flexibility in how — and, in some cases how much — retirement savers can build wealth over time.

In order to help you sort through all of the act's dozens of new rules, IFA's Shareen Balkey has put together a detailed list of Secure 2.0's major features for plan participants in 401(k), 403(b) and related employer sponsored retirement plans advised by IFA.

Besides analyzing the act's key provisions, she also points out that Secure 2.0 has more than 100 new provisions. Balkey, who is head of retirement services at IFA, urges plan participants to reach out to their benefits department at work with any questions.

Also, she invites you to contact your plan's IFA advisor to discuss how such reforms might impact your unique retirement situation. You can reach your advisor by calling our main number: (888) 643-3133.

- **Saver's Match**

  Effective as of Dec. 31, 2026, the non-refundable credit for contributions to Individual Retirement Accounts (IRAs), employer retirement plans and ABLE accounts will be replaced by a federal matching contribution (up to $2,000) deposited into the taxpayer's plan by the U.S. Treasury Department. The match phases out at certain income thresholds. Please talk to your plan's advisor and/or benefits department for more information.

- **Roth Tax Treatment for Employer Contributions**

  Plans are permitted to allow employees to elect whether employer matching or non-elective contributions will be made on a Roth (post-tax) vs. pre-tax basis. This provision begins immediately.

- **Long-Term, Part-Time (LTPT) Workers**

  The three-year LTPT rule created by SECURE 1.0 (but not yet effective) will be reduced to two years — i.e., employees working 500+ hours in two consecutive years must be eligible to make salary deferral contributions. This provision becomes effective in 2025 (versus 2024 under SECURE 1.0).

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- ### Roth Tax Treatment for Catch-Up Contributions
  Starting in 2024, catch-up contributions for workers with wages of $145,000 or more are subject to Roth tax treatment for those employees with compensation of $145,000 or more. Starting in 2025, compensation will be indexed for inflation.

- ### RMD Age Increase
  The required minimum distribution age is increased to age 73 starting in 2023, and age 75 starting in 2033.

- ### Indexing IRA Catch-Up Limit
  The IRA catch-up limit for those age 50 and older is inflation-indexed after Dec. 31, 2023.

- ### Higher Catch-Up Limit at Ages 60-63
  Effective for tax years beginning in 2025, catch-up contributions increase to $10,000 (possibly more under inflation indexing) for participants aged 60-63 — i.e., the attained age for the entire tax year is at least 60 and not yet 64.

- ### Long-Term Care Contract Payments
  Starting in 2025, people with workplace retirement plan accounts or IRAs can take distributions up to $2,500 a year for the payment of premiums for certain long-term care insurance (LTCI) contracts. Such distributions will also be exempt from the 10% early distribution tax. However, when taxpayers are filing their federal income taxes, they'll be required to include any LTCI premium cash taken out of traditional IRAs or traditional 401(k) plan accounts in their taxable income.

- ### No Penalty for Emergency Withdrawals
  Beginning in 2024, the additional 10% tax applied to early distributions will be waived for unforeseeable personal or family emergency expenses. One distribution up to $1,000 per year will be allowed with the option to repay that amount back within three years.

- ### IRA Auto-Portability
  In the past, former employees with relatively small account balances — typically $5,000 or less — could be "forced out" of their old plan. This means in such cases a former employer was allowed to set up a separate IRA for the former employee's assets. Post Secure 2.0, these so-called force-out IRAs will be rolled automatically into a new employer's plan unless the participant opts out. Also, the amount considered to fall within such 'force out' guidelines will go up to $7,000 per account.

- ### 529 Rollovers to Roth IRAs
  Beginning in 2024, beneficiaries of 529 college savings accounts are permitted tax and penalty free rollovers of up to $35,000 over their lifetime from 529 accounts to Roth IRAs under certain conditions. Any beneficiary must have earned income. Please consult your plan's IFA advisor for more details.

- ### RMD penalty reduction
  Starting in 2023, the penalty for failure to take required minimum distributions (RMDs) is decreased from 50% to 25%. In some cases, such a tax penalty can be lowered to 10% if the failure is corrected in a timely manner. Again, please talk to your IFA advisor before making any final decisions.

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- ### Retirement Savings Lost and Found
  Provisions of Secure 2.0 also call for a national online database to be established by the Department of Labor (DOL) within two years to enable those who may have lost track of their retirement plan to search for the contact information of plan administrators.

- ### Hardship Withdrawal Self-Certification
  Participants can self-certify that they had a qualified event that constitutes the need for a hardship withdrawal. This provision is intended to simplify the process for taking a hardship withdrawal. Such a simplified process is effective as of the current calendar year.

- ### Early Distribution Rules When Terminally Ill
  Effective in 2023, early distributions from a retirement plan account to terminally ill individuals will be exempt from the additional 10% tax.

- ### Surviving Spouse Election
  Starting in 2024, surviving spouses can elect to be treated as the deceased employee for required minimum distribution purposes.

- ### Qualified Federally Declared Disaster Distributions
  Secure 2.0 standardized rules for disaster relief so that Congress no longer needs to pass special relief for every disaster. This means up to $22,000 can be distributed to a retirement saver from a qualified employer retirement plan or IRA without an additional 10% tax penalty. It also allows taxpayers to count for tax filing purposes such distributions as gross income over three years and can be paid back to the plan. Also, amounts distributed prior to the disaster to purchase a home can now be recontributed.

Note: Under the new rules, employers are allowed under certain circumstances to permit larger amounts to be borrowed by affected individuals and for additional time for repayment. Such provisions are effective for disasters beginning after Jan. 16, 2021.

Post Secure 2.0, we highly recommend that plan participants consult with an IFA advisor before making any major financial decisions. You can reach your advisor by calling our main number: (888) 643-3133.