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SECURE ACT 2.0

RETIREMENT ACCOUNT CHANGES

Saving for retirement just got a little bit easier. Congress approved big changes that can help 401(k) and IRA savers put a little more money away for their futures.

A series of new laws—known collectively as Secure Act 2.0—will change the way Americans save for retirement starting in 2023. They are part of the $1.7 trillion spending bill Congress passed late last week, and include upping the age of required minimum distributions (RMDs), allowing unused 529 funds (tax-advantaged savings plan for college expenses) to roll over to a retirement account penalty-free, and making it easier for workers with student loans to save for retirement.

The legislation includes dozens of changes to retirement saving, according to the text of the bill, summaries of the provisions, and insight from retirement and financial experts. Here's a rundown of some of the key 401(k), 403(b), and IRA tweaks.

Changes to RMDs

Currently, taxpayers are required to start taking RMDs from their retirement accounts at age 72. But starting in 2023, that age will increase to 73. In 2033, the age increases to 75.

That means if you turned 72 in 2022, you will need to take your first RMD by April 1, 2023; but if you turn 72 in 2023, you do not need to take your RMD until the following year, when you turn 73. That moves the deadline for your first withdrawal to April 1, 2025 (because your first RMD will be for the year 2024).

An additional RMD change: The penalty for missing RMDs is being reduced from 50% of the withdrawal amount to 25%. It falls to 10% if the RMD is taken by the end of the next year.

And starting in 2024, a surviving spouse who inherits a retirement account will be treated as the deceased account holder for RMD purposes. This means if the surviving spouse is younger than their deceased partner, they may be able to delay RMDs.

Finally, while there are currently no RMDs on Roth IRAs, there are required distributions for Roth 401(k)s. The Secure Act 2.0 does away with these for account holders who are still alive.

Increased catch-up contributions

Another boon for older workers: They will be allowed to save even more in retirement accounts.

Currently, those over 50 can invest an additional $7,500 to their 401(k) or 403(b)s in what is known as a catch-up contribution. That amount will increase to $10,000 starting in 2025 for those ages 60 to 63.

Additionally, starting in 2024, the IRA catch-up limit will be increased for inflation each year. Currently, it's a flat $1,000 extra per year.

Catch-up Roth contributions

Under current law, catch-up contributions to qualified retirement plans can be made on a pre-tax or Roth (post-tax) basis. The legislation changes that for higher-earning workers: For those making at least $145,000, all catch-up contributions are subject to Roth tax treatment, beginning in 2024.

Roth 401(k) matching

Under current law, if an employer offers a retirement match, it needs to be distributed into a traditional 401(k) on a pre-tax basis, even if the employee has a Roth 401(k). The new legislation tweaks this so that employers can offer Roth matching contributions. Like other Roth contributions, employees will pay taxes on their Roth match up front and be able to take it out later tax-free.

401(k) savings accounts

Employers will now be able to automatically enroll their employees in savings accounts linked to their 401(k)s. Studies have shown that automatic enrollment increases participation rates—and total amounts of—savings. They can also match the emergency savings, though the match would be in the form of a retirement account contribution.

Employees earning under $150,000 starting in 2023 qualify for these accounts, and can save up to $2,500. The savings works like a Roth contribution (or contribution to a regular savings account): Employees contribute money they've already paid tax on, and can withdraw it tax-free. If an employee meets that $2,500 cap, any additional contributions will be diverted to a Roth account.

Emergency 401(k) and IRA withdrawals

The legislation will make it easier for workers to withdraw funds from their retirement accounts penalty-free in the case of personal or family emergencies such as a terminal illness or natural disaster.

One emergency distribution up to $1,000 will be permitted each year starting in 2024. If the taxpayer does not repay that $1,000 in three years, they cannot take another distribution during that time.

Additionally, starting in 2024 domestic abuse survivors will be allowed to take penalty-free withdrawals of the lesser of $10,000 or 50% of their retirement account. They can repay that within three years, and if they do they will be refunded the income tax they paid on the withdrawal.

401(k) automatic enrollment

Speaking of automatic enrollment, the legislation requires employers starting new retirement plans in 2025 or after to automatically enroll their employees in a 401(k) and 403(b) plan. The automatic enrollment will start at 3% of the employee's paycheck and cannot exceed 10%. Each year, the contribution will automatically increase by 1%.

Student loan payment match

Workers who have student debt often forgo contributing to their retirement accounts to afford their monthly loan payment. And if their employer offers a 401(k) match, that means they miss out on that money—effectively taking a pay cut and reducing the time they are investing for retirement, sometimes for a decade or more.

The Secure Act 2.0 allows employers to make matching contributions into a retirement account for employees who are making student loan payments, even if they aren't contributing to their 401(k)s. The match would mirror a retirement match, allowing those borrowers to start saving for retirement while paying down their debt.

This also applies to those with 403(b)s, 457(b)s, and SIMPLE IRAs.

Rollover 529 funds

If a family has leftover funds in a 529 account they are not using for educational purposes, they are assessed a penalty to withdraw those funds. Starting in 2024, the Secure Act 2.0 allows beneficiaries of 529 accounts to roll over up to $35,000 (in a lifetime) into a Roth IRA. The 529 needs to have been open for at least 15 years for a beneficiary to do this.

The rollover amount is subject to the annual contribution limit for Roth IRAs, so some people may need to plan to move their funds over multiple years.

National 401(k) registry

Finally, the bill will create a national lost-and-found registry for 401(k)s. Currently, states operate their own versions, leading to confusion for many workers.

The database will be searchable online, allowing workers to search for their plan administrator.