THE BASICS OF THE

SECURE ACT 2.0

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SouthPark Capital

Introduction

Congress passed the second installment of the SECURE Act under the Omnibus Spending bill of 2023, containing major changes to the retirement planning landscape.

In the past, retirees could typically rely on a pension and Social Security benefits and pensions for the rest of their lives. But today's retirees are part of the first generation that often must fund their own retirement. Even for those who have saved diligently over many years, the threat of outliving one's money is legitimate. Lawmakers recognized the changing needs of today's retirees, and passed the SECURE Act in 2019, and now the SECURE Act 2.0 in the final days of 2022.

It's important to seek out advice on how to create and update your retirement plan based on the new provisions of the SECURE Act 2.0 so that you can take advantage of the opportunities and avoid the pitfalls. At SouthPark Capital, we can explain how the latest retirement legislation could affect you specifically. The rules are complex, but your objectives may be as simple as finding strategies to help minimize your taxes, grow your savings, and pass on your wealth to your loved ones.

What's in the SECURE Act 2.0?

The new legislation will encourage and incentivize workers to save for retirement in a few ways:

I Required Minimum Distributions (RMDs)

The Act increases the age at which RMDs start (the requirement to withdraw certain percentages of your traditional retirement accounts as you age) to 73 in 2023 and to 75 after 2032. This went into effect on January 1st, 2023, for any who turn age 72 after that day. In addition, the RMD penalty was cut in half from 50% to 25%, starting in 2023.1 Make sure to check your RMD obligations and plan around them. A financial advisor is your best teammate in achieving clarity on how RMDs work.

Also, starting in 2024, Roth 401(k)s will not have RMDs applied to them anymore.[2]

II Automatic Employer-Sponsored Retirement Plan Enrollment

Starting in 2025, most newly administered employer-sponsored retirement plans, whether 401(k), 403(b), or some other employer-sponsored plans, will automatically enroll workers when they become eligible. The automatic enrollment amount starts at a minimum 3% of your salary and increases by 1% every year until it gets to 10% but not more than 15%.[3]

Automatic enrollment in a retirement plan is designed to make it easier for employees to participate. Employees who prefer not to participate can opt out. There is an exception to the requirement for small businesses with 10 or fewer employees, new businesses less than 3 years old, churches, and governmental plans. To add even more convenience, businesses can integrate automatic enrollment with payroll.

III Catch-Up Contribution Changes

Starting in 2025, those between 60 and 63 can contribute an additional $10,000 to their 401(k), 403(b), and $5,000 to a SIMPLE plan. All catch-up contributions for workers with annual wages over $145,000 during the previous year will be required to be deposited into a Roth account. The annual wage limit will be adjusted annually for inflation as welll.[4]

IV Simple & SEP IRAs and 401(k) Changes

Starting in 2024, catch-up contributions under SIMPLE IRA and 401(k) plans will increase by 10% of the current $5,000 limit for employers with 25 or fewer employees. Employers with 26 to 100 employees would be permitted to provide higher deferral limits, but only if the employer either provides a 4% matching contribution or a 3%employer contribution.[5]

Employers can adjust their plans to allow employees to elect that employer matching and non-elective contributions be made as Roth (after-tax) contributions, as long as they are fully vested when contributed to the plan.[6] Plus, SEP and SIMPLE IRA Plans can now be offered with Roth treatment as well.[7]

V IRA Limitation Changes

As opposed to flat dollar amount limitations, IRA contribution limits would be indexed to inflation starting in 2024.[8]

VI Student Loan Support Through Retirement Accounts

529 accounts, which are structured for educational expenses, can be converted to Roth accounts if the account has been open for at least 15 years. These are also subject to the maximum annual Roth contribution as well.[9] In addition, people paying off student loans can now receive a 401(k) match for doing so.[10]

VII Changing the Saver's Credit

The Saver's Credit offers extra tax savings in the form of $1,000 to low- and medium-income earners who save for retirement. Starting in 2027, The SECURE Act 2.0 will change the saver's credit to a "Saver's Match" by instead of deducting an amount from their tax bill, directly depositing the matching amount to the qualified individual's traditional retirement account of their choice.[11]

The income qualifications are structured as such: The match would be phased out on income levels of "$41,000 to $71,000 for married couples filing a joint tax return. For single taxpayers, the phase-out range would be $20,500 to $35,500, and for heads of household filers, $30,750 to $53,250."[12]

VIII Retirement for Part-Time Workers

Starting in 2025, part-timers will be able to access their 401(k benefits after two years rather than three if they put in between 500 and 999 hours of work annually.[13]

IX General Expansion of Retirement Savings Access

There is a plethora of small provisions and sections that increase the access and ownership of retirement accounts for individuals.

Emergency Savings Opportunities

Starting in 2024, workers who are not yet 59½ years old could take out up to $1,000 from their retirement account without facing the usual 10% penalty for early withdrawal.

! *It's important to note that the distribution would have to be repaid within three years of its withdrawal.[14]*

! *Qualified expenses could be for preventing foreclosure or eviction, funeral expenses, medical care expenses, tuition expenses, or other exempt categories provided by the IRS. To qualify for the exemption, you will be required to provide evidence of these events and needs.[15]*

! *Employers could also enable staff to establish post-tax emergency savings accounts through regular salary payments, up to a limit of $2,500.[16]*

The More You Know

In 2024, a low-dollar 401(k) can be transferred to a new employer-sponsored retirement account without the previous employer's consent.

The Act introduces starter 401(k) plans which are designed for businesses to offer retirement savings to employees without as much of a bureaucratic process for the employer, further encouraging them to offer retirement plans to their employees.

Funding is secured in the passage of the Act for the Department of Labor to build an online database of employer-sponsored retirement accounts so that it is easier to track down and manage your retirement accounts when switching jobs. This is essentially a lost-and-found for these accounts.

Increased access to retirement savings accounts for those who work in niche vocations, such as nannies and rural electricians, who have previously found difficulty accessing advantaged retirement savings accounts.[17]

Added Advantages and Increased Access to Annuities

Annuities are insurance-based financial products that are structured to provide you with steady, even lifetime income in retirement along with other customizations that, for a fee, can help you protect against risks in your life and in the markets.

The SECURE Act 2.0 legislation makes it easier to buy annuities by easing technical RMD requirements for annuity options in addition to making Qualified Longevity Annuity Contracts (QLACs) more appealing by increasing the amount of your retirement savings you're allowed to use to buy a policy.[18]

Previously, there was a 25% cap on this amount. But with the passage of this Act, that limit is removed, and increases the $125,000 limit up to $200,000. This means you can buy more lifetime income with a QLAC and help lessen the effects of RMDs.[19]

The legislation also opens opportunities for exchange-traded funds (ETFs) to be held and traded in variable annuities, allowing further diversification and control over what assets and equities a variable annuity can hold.[20]

Original SECURE Act Summary

The original SECURE Act was the biggest piece of retirement legislation to be passed in years and included many important changes for those in and preparing for retirement. These changes had important tax and estate planning implications for retirees and their heirs. Here were some of the most important changes:

The Rules for Retirement Accounts Changed: Required Minimum Distributions used to start at age 70½ but were increased to start at age 72 . Prior to the passage of the SECURE Act, you could not contribute to a traditional IRA after the age of 70 ½.

Elimination of the "Stretch IRA": The stretch IRA was an estate planning strategy that allowed heirs to stretch out distributions based on their own life expectancies instead of the life expectancy of the previous owner. Now, most non-spouse beneficiaries inheriting an account after 2019 must drain an inherited account within ten years of the original owner's death.

Expanded 529 Plan Benefits: 529 Plan owners and beneficiaries could distribute a maximum of $10,000 to cover qualified student loan repayments. This change meant parents, grandparents, or other family members could now have the option to contribute to a student's 529 plan while a student is in college and use those funds to repay loans tax-free after graduation.

What do you do when the rules are Constantly Changing?

Option One — ***Let your financial plan become outdated and risk the consequences.***

Option Two — ***Educate yourself and go to a professional with expertise in retirement planning.***

Maximize Strengths
Minimize Weaknesses

Just as there were opportunities to take advantage of new changes and avoid pitfalls with the SECURE Act 1.0, there will be the same with the SECURE Act 2.0.

This comprehensive guide is the start of your conversation about how the SECURE Act 2.0 may affect your retirement plans. We can help you figure out which of these changes may apply to you and which ones not mentioned may affect your retirement plan. And we'll also help you see how you can respond to them in a way that works for you.

At SouthPark Capital, we can help you recognize new opportunities and overcome challenges posed by these changes. The SECURE Act 2.0 will affect most retirees in some form or another, but the ways in which it may do so will depend on each person's unique financial situation. In addition, unless you are a financial professional who keeps up with the details of new regulations and retirement landscape changes, it's unfeasible for you to expect to catch every change that can affect you, especially with the passage of this massive, landscape-changing piece of legislation.

But that's why we're here. We can help you create a plan tailored to your specific needs and continue to work with you throughout your retirement to make sure it is properly fitted to your goals and needs given the changing financial environment.

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Disclosure