SECURE Act 2.0 - January 2025 Update

On December 29, 2022, President Joe Biden signed the "SECURE 2.0 Act of 2022" (the "Act") into law as part of the $1.7 trillion 2023 omnibus spending bill. The Act expanded upon the "Setting Every Community Up for Retirement Enhancement" (SECURE) Act of 2019, bringing a second round of sweeping legislative reforms to both employer-sponsored plans and individual retirement planning. Many provisions have been enacted over the past couple years, some were just enacted this month (January 2025), and others still lie ahead. A few of the more notable changes are as follows:

INDIVIDUAL RETIREMENT PLANNING CONSIDERATIONS:

Increased Required Minimum Distribution (RMD) Age

As of January 2023, the Act raised the age at which individuals must begin taking retirement account distributions. The new age requirements are as follows:

Birth Year	Impact of Secure 2.0
<1951	No impact; take RMDs as usual
1951-1959	RMD age moved from 72 to 73
1960+	RMD age moved from 72 to 75

Reduced RMD Penalty

The penalty for missed or incomplete RMDs also decreased from 50% to 25% of the undistributed amount, with a further reduction down to 10% if the error is remedied promptly.

Qualified Charitable Distribution (QCD) Changes

The maximum QCD, which was previously fixed at $100,000, became indexed for inflation starting in 2024 ($108,000 in 2025). Individuals now also have a one-time opportunity to fund a charitable remainder trust or a charitable gift annuity using a QCD.

Note: The RMD change did not impact the age at which you may begin making QCDs from retirement accounts (it is still 70½).

529 Plan - Roth Conversion Option

Individuals now have the limited ability to move 529 plan funds directly into a Roth IRA in the 529 plan beneficiary's name. To do this, the 529 plan must have existed for 15 years, contributions within past five years are not eligible to be moved, and the IRA annual contribution limit applies, as does an individual lifetime maximum of $35,000. This process is not, however, subject to the income limitations that apply to individual Roth contributions.

New RMD Option for Surviving Spouses

A surviving spouse who inherits a retirement account from a deceased spouse now has the option to be treated as the deceased spouse, meaning they may elect to delay RMDs until the age at which their deceased spouse would have had to start taking them.

More Flexible Emergency Access to Retirement Plan Funds

People now have more flexibility to withdraw retirement funds before age 59½ without a 10% penalty. New exceptions include qualified disaster recoveries, individuals with terminal illnesses, victims of domestic abuse, personal or family emergency expenses (capped at $1,000/year), or long-term care insurance payments.

EMPLOYER RETIREMENT PLANNING CONSIDERATIONS:

SECURE 2.0 expands upon SECURE 1.0's main goal for sponsors of 401(k), 403(b) and SIMPLE retirement plans: enabling more employees to save more money for retirement.

Below are some of the more notable retirement plan/plan design features (required and optional).

SIMPLE and SEP IRA Roth Contribution Options

Individuals may now contribute to Roth SIMPLE and SEP IRA accounts, which could previously only be funded with pre-tax dollars.

New Catch-up Contribution Requirements

- As of Jan. 1, 2025, people ages 60-63 can make an additional catch-up contribution of either $10,000 or 150% of the age 50+ catch-up amount indexed for inflation ($11,250 in 2025), whichever is greater.
- As of Jan. 1, 2026, catch-up contributions of people age 50+ who made more than $145,000 in the previous tax year (indexed for inflation) will have to be designated as Roth (after tax) contributions.

Small Business Tax Credit Available

Small businesses with fewer than 50 employees are eligible for up to $50,000 in tax credits for a newly established plan. Up to 100% of startup costs may be credited (up to $5,000) and there are additional first-year credit incentives as well.

Employer Student Loan Matching Option

Employers can now match qualified student loan payments as elective deferrals.

Emergency Personal Expense Distribution Requirement

Participants can now take one withdrawal per calendar year up to $1,000 for immediate and necessary emergency expenses without the 10% penalty. Only one withdrawal can be outstanding at a time, and the amount may be repaid within three years. Until it is repaid, no further emergency withdrawals are allowed within that three-year period.

Emergency Savings Account Option

Employers can give non-highly compensated employees the option to contribute up to $2,500 annually to a Roth-based emergency fund, and employers can also match those contributions. Employees can make four withdrawals per plan year free of any fees or charges, and amounts are portable to a new employer's plan.

Mandatory Cash-out Distribution Level Raised

On Jan. 1, 2024, the dollar amount under which an employer can force a terminated employee to take a distribution changed from "less than $5,000" to "less than $7,000."

Option for Employer Matching Contributions to be Made as Roth

Employers now have the option to designate matching and qualified non-elective employer contributions as Roth, as long as the participant is fully vested in such Roth contributions.

Roths in Retirement Plans No Longer Subject to RMDs

The designated Roth account in a retirement plan is no longer subject to an RMD during a participant's lifetime. This includes those who have already begun to take RMDs from a retirement plan Roth account.

New Auto-Enrollment and Contribution Requirements

All new 401(k) and 403(b) plans established after December 29, 2022 require employers to automatically enroll employees at an employer-determined rate of 3 to 10%. The requirement becomes effective for plan years starting January 1, 2025. Employers are also required to offer auto-escalation at a rate of 1% per year up to 15%.

Timing of Plan Amendments Changed

The IRS has extended the deadlines for plan amendments, but each plan must still follow all applicable provisions:

- Non-Governmental Plan (not collectively bargained): December 31, 2026
- Non-Governmental Plan (collectively bargained): December 31, 2028
- Governmental Plan: December 31, 2029

SECURE 1.0 and CARES Act amendment requirements have also been moved to match this deadline.

Long-term Part-time Workers

The service requirements for long-term part-time workers to participate in 401(k) plans have been reduced. Employees now only need to work 500 hours per year for two consecutive years to become eligible, down from three years previously. This change expands retirement plan access to more workers in the gig economy and those with multiple part-time jobs.

Retirement Savings Lost and Found

The Act established a national online searchable database to help workers locate lost retirement accounts. This feature could be particularly useful for individuals who have changed jobs multiple times and may have forgotten about old 401(k) accounts. It is currently live.

Automatic Portability

The Act allows for automatic portability of retirement plan assets, making it easier for participants to transfer their retirement savings when changing jobs. This provision aims to reduce cash-outs and preserve retirement savings, especially for workers with smaller account balances.