Opus
CAPITAL MANAGEMENT

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The SECURE 2.0 Act Becomes Law

The SECURE 2.0 Act of 2022 (“SECURE 2.0”) was passed by Congress with bipartisan support and signed into law on December 29, 2022. SECURE 2.0 is an attempt to build on the initiatives of the SECURE Act of 2019, the last major retirement plan legislation enacted, and brings a slate of provisions that will be phased in over several years.

Key Changes For Individuals Include:

- **Age Raised for Required Minimum Distributions (RMDs):** The age at which individuals must begin withdrawals from their IRA accounts has been moved back from age 72 to **age 73.** Beginning in year 2033, the RMD age will be pushed back further to age 75.

  If you were under age 72 on December 31, 2022, and do not need to take withdrawals from an IRA to cover living expenses, it may be beneficial to complete Roth conversions or IRA distributions to maximize the use of lower tax brackets.

- **Education Accounts (529 Plan) to Roth IRA Rollovers:** Beginning in 2024, you can roll over excess money from a 529 Plan to a Roth IRA on an annual basis (tax and penalty-free), as long as certain conditions are met. The 529 account must have been open for at least 15 years, the Roth IRA and 529 account beneficiary must be the same person, and there is a $35,000 aggregate lifetime limit. The rollover is treated as a contribution towards the annual Roth IRA limit for the beneficiary, but income limits do not apply.

  If you have excess money in a 529 Plan account, this could be a useful tool for continued tax-deferred growth on the education monies. Additionally, it may be beneficial to contribute to the 529 for longer, or adjust your investment allocation, to allow for tax-free rollovers to the next generation. If you are interested in this provision, it is important to open the account now to start the 15-year clock.

Key Changes to Employer Retirement Plans (401k, 403b, etc.) Include:

- **Increased Catch-up Contributions for Workers Ages 60 to 63:** A catch-up contribution is the additional amount (up to $7,500) anyone age 50 and older can save in a retirement plan. Beginning in 2025, this amount is increased further (up to $10,000) for anyone ages 60 through 63.

- **Changes to Catch-up Contributions for High Wage-Earners:** Starting in 2024, all catch-up contributions to employer retirement plans must be Roth (after-tax) for anyone with W-2 wages over $145,000 in the prior calendar year (indexed for inflation).

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If your plan does not offer a Roth option, it is possible you will no longer be able to make catch-up contributions, regardless of income level.

- **Optional Roth Treatment of Employer Matching Contributions:** Employer matching contributions have historically been made on a pre-tax basis. Effective immediately, employers may allow employees the option of treating these contributions as Roth (after-tax), provided the money is fully vested. The amount contributed will be treated as taxable income in the year received, but the money grows tax-free, and you can generally make tax and penalty-free withdrawals after age 59 ½.

  If you are in a low tax bracket, it may be beneficial to treat your employer matching contributions as Roth to maximize use of lower tax brackets. This will likely reduce the amount of taxes you pay over your lifetime and be beneficial from a generational wealth planning perspective.

The SECURE 2.0 bill contains over 90 sections. Employers, providers, and custodians are scrambling to accommodate the new legislation. Please contact your Opus team if you would like to discuss how the new rules impact your specific situation.