SECURE 2.0 ACT

What You Need to Know

Introduction

You may have heard of the SECURE 2.0 Act, and if you haven't, don't worry—we're here to explain what it is and why it matters to you. The SECURE 2.0 Act is a major update to retirement savings laws, building on the original SECURE Act. These updates are important because they might impact how you plan and save for your future. These changes are designed to make saving for retirement easier and more efficient for everyone.

NOTE: Many of these provisions are optional and may not be available through your employer.

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EFFECTIVE 2023

Roth Employer Contributions

- Under current law, employers could not provide matching or nonelective/discretionary (sometimes called “profit sharing”) contributions in their retirement plans on a Roth basis. They had to be pre-tax.

- The Act allows employers to provide employees with the option of receiving employer contributions as Roth. These contributions would be included in the your taxable income and must immediately be 100% vested.

EFFECTIVE 2023

Hardship Distributions Can Be Self-Certified

- Previously, your employer had to collect documentation for hardship distributions. Now, you might be able to self-certify that you experienced an event that qualifies as a hardship.

Required Minimum Distribution (RMD) Age Increase

- Now, with SECURE Act 2.0, if you turn 72 after December 31, 2022, you won't need to start taking RMDs until you reach age 73. Additionally, if you turn 74 after December 31, 2032, the age for starting RMDs will be raised to 75.

- This means you can keep your money in your retirement accounts longer before being required to make withdrawals.

No Penalties for Early Withdrawals for Terminal Illnesses

If you have a terminal illness, SECURE 2.0 allows you to withdraw money from your retirement plan early without facing the usual penalties (although ordinary income tax still applies.

EFFECTIVE 2023

Employer Matching of Student Loan Payments

- Your employer can now match your qualified student loan payments with contributions to your retirement plan. Essentially, your student loan payments are treated like retirement plan contributions and can be matched.

- These student loan matching contributions must be:
  - Available to all eligible employees for matching contributions on their retirement plan deferrals.
  - Matched at the same rate as your retirement plan contributions.
  - Subject to the same vesting schedule as the matching contributions for retirement plan deferrals.

EFFECTIVE 2024

Emergency Withdrawals

- As an employee, you may now be able to claim a personal emergency and withdraw up to $1,000 from your retirement plan. You can do this once per year and have the option to repay the amount within three years. If you repay it and face another personal emergency, you can take another distribution, as long as the distribution takes place in a different year than your original. However, if you don't repay it, you won't be able to take another distribution for a personal emergency until three years has passed.

EFFECTIVE 2024

“Side-car” Emergency Savings Account

- If you are a non-highly compensated employee, you now have the option to save for emergencies within your retirement plan. Here’s how it works:
    - You can contribute up to $2,500 for emergencies. These contributions will be made on a Roth-like basis and will be treated as elective deferrals for the purpose of an employer match.
    - If you need to take a distribution, it will be considered a qualified Roth distributions, which means it is non-taxable.
    - If you leave your job, you can either take your emergency savings balance as cash or roll it into another qualified Roth account.

Penalty-free Distributions for Victims of Domestic Abuse

- As an employee, if you experience domestic abuse, you can withdraw the lesser of $10,000 (adjusted for inflation) or 50% of your account balance from your retirement plan without the early withdrawal penalty (although it will still be subject to ordinary income tax).
- You can self-certify this need without providing evidence.
- You also have the option to repay the distribution over three years, and any income taxes you paid on the withdrawal can be refunded once you repay the amount.

EFFECTIVE 2025

Higher Age 50+ Catch-up Limits for those Age 60-63

- The greater of $10,000 or 150% of the regular catch-up limit, indexed for inflation.

EFFECTIVE 2026

Catch-up Contributions Must Be Made as Roth for High-income Earners

- If you earn over $145,000 (adjusted for inflation), any age 50+ catch-up contributions you make to your retirement plan must be made as Roth deferrals.

- This amount is based on your compensation from the previous year, according to the Social Security definition of "wages."

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