

SECURE Act 2.0 and Your Retirement Savings



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The Setting Every Community Up for Retirement Enhancement Act (SECURE Act) was passed by Congress in 2019 to help Americans better prepare for retirement. The SECURE 2.0 Retirement Savings Act (SECURE Act 2.0) was then passed in the final days of 2022 to expand on the 2019 act, adding dozens of provisions intended to make it easier for Americans to save for retirement in IRAs and employer-sponsored plans.

These provisions include:

Changes to required minimum distributions (RMDs) including an increase in the required beginning date (RBD) and a decrease in the penalty for not taking it.

Higher catch-up contributions starting in 2025 allow people aged 50 and older to contribute an additional \$7,500 per year and those aged 60-63 to contribute an additional \$10,000 per year.

Expansion of the Qualified Charitable Distributions (QCD) rules to include one-time gifts to a "split-interest entity" like a charitable remainder annuity trust or charitable remainder annuity trust.

And one of the most important provisions for those with existing IRAs and employer-sponsored plans is the reduction in the ability to create a "stretch IRA". Prior to the passage of the SECURE Act most individual non-spouse beneficiaries used their life expectancy to minimize IRA withdrawals over time. This allowed the beneficiary to stretch distributions over, in some cases, decades, sheltering a large portion from taxes. As of January 1, 2020, The SECURE Act all but eliminated the stretch provision for many and created a new 10-year rule which requires that all non-eligible beneficiaries deplete the account within 10 years. Note that the rule applies to non-eligible beneficiaries, eligible beneficiaries who are not subject to the 10-year rule include:

- A surviving spouse
- A disabled or chronically ill person
- A child of the deceased who hasn't reached the age of majority
- A person not more than 10 years younger than the IRA account owner

These eligible beneficiaries are not obligated to deplete the account within 10 years and will likely take RMDs over their life expectancy.

Adding another layer of complexity is the impact of naming a trust as the beneficiary. Certain trusts considered "non-individual beneficiaries" are subject to a 5-year rule which requires the depletion of the account by Dec. 31st of the 5th year following the owner's death (applies when the account owner died prior to their RBD) or the "ghost life expectancy" (applies when the account owner died after their RBD). While other trusts, including See-Through Trusts, follow the 10-year rule outlined above.

With these changes in mind, we recommend reviewing your current beneficiary designations to ensure they accurately reflect your bequest goals, especially if your trust is the beneficiary. And by all means feel free to reach out to us with any questions or for clarification on these important albeit confusing regulations.

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