SECURE 2.0 Act Seeks to Boost Retirement Readiness – Video Transcript

The SECURE Act 2.0 is intended to help Americans bolster their retirement readiness. The new law has something for everyone – for people in or near retirement to people just starting out on their retirement savings journey.

Here are two key highlights for people in or near retirement.

One. Higher catch-up contributions.

Starting in 2024, the $1,000 IRA catch-up contribution amount for people ages 50 and older will be indexed for inflation each year, similar to work-sponsored catch-up contributions.

Also starting in 2024, regarding employer retirement plans, for employees who earn more than $145,000 in the prior calendar year, all catch-up contributions after age 50 must be made to a Roth account using after-tax dollars. The $145,000 income limit will be indexed annually for inflation.

Starting in 2025, people ages 60 to 63 will be able to make additional catch-up contributions to their workplace plan.

Two. Changes to required minimum distributions.

Starting in 2023, the age for required minimum distributions will be 73, up from 72. This age will increase to 75 in 2033.

Also in 2023, the penalty for failing to take an RMD will decrease from 50% to 25% of the amount not taken. The penalty will be further reduced to 10% for account owners who subsequently take the full RMD amount and file an amended tax return in a timely manner.

Starting in 2024, Roth accounts in employer retirement plans will be exempt from RMD requirements during the employee's lifetime, bringing their treatment in line with Roth IRAs.

Here are five key highlights for people in the early or middle stages of saving for retirement.

One. Employer matching for Roth accounts.

Starting in 2023, employers will be able to make matching contributions to Roth accounts. Previously, employer matching contributions could only be made to pre-tax accounts.

Two. New emergency savings accounts.

Starting in 2024, non-highly compensated employees will be able to contribute up to $2,500 per year (or a lower amount that an employer determines) in a special emergency savings Roth account that is added to the employee's retirement plan account. The first four withdrawals from the emergency savings account in a year would not be subject to any fees or charges solely on the basis of such a withdrawal.

Three. Student loan payments can be used to qualify for an employer retirement match.

Starting in 2024, employers will be able to use student loan payments made by their employees to make matching payments to a retirement account.

Four. New 529 plan rollover option.

Starting in 2024, up to $35,000 of total funds in a 529 plan can be rolled over to a Roth IRA for the same beneficiary over the beneficiary's lifetime, subject to annual Roth contribution limits and provided the 529 account has been open for at least 15 years.

Five. Automatic retirement plan enrollment.

Starting in 2025, most employer retirement plans will be required to automatically enroll eligible employees at a minimum contribution rate of 3%, with automatic annual savings rate increases of 1%, until they reach at least 10% but not more than 15% of income. Employees can opt out if desired.

All the provisions in SECURE Act 2.0 are intended to help American save and plan for retirement.

This is just a partial list of the Act's many new rules.

All investing involves risk, and there can be no guarantee that any investing strategy will be successful.

As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. Investment earnings accumulate on a tax-deferred basis, and withdrawals are tax-free as long as they are used for qualified education expenses. For withdrawals not used for qualified education expenses, earnings may be subject to taxation as ordinary income and possibly a 10% tax penalty. The tax implications of a 529 savings plan should be discussed with your legal and/or tax professionals because they can vary significantly from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional. You should read these materials carefully before investing.

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