3 SECURE 2.0 Changes to Discuss With Financial Planning Clients

To ensure your clients are set up for retirement success, familiarize them with these three SECURE 2.0 provisions to start.

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After nearly one year since its enactment, there's still a lot to unpack from the SECURE 2.0 Act. Signed into law on Dec. 29, 2022, the act updates and enhances the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 by offering even more provisions for better retirement outcomes for Americans.

Let's unpack three important provisions and look at how they'll impact your personal financial planning (PFP) clients.

1. CHANGE IN RETIREMENT AGE

One of the most significant changes outlined in SECURE 2.0 is the required minimum distribution (RMD) age increase for the holder of an individual retirement account (IRA)—other than an inherited IRA—or a participant in a qualified retirement plan. The age of the initial RMD has been increased from age 72 to:

- Age 73 (if the individual's date of birth is before Jan. 1, 1960).
- Age 75 (if the individual's date of birth is after Dec. 31, 1959).

Other pre-SECURE 2.0 rules regarding RMDs remain in place. This means a participant in an employer-sponsored retirement plan who reaches a RMD age isn't required to take that year's RMD while still employed by the employer unless they own 5% or more of the company. Additionally, the first year's RMD from a qualified plan may be deferred into the next year at the participant's choosing.

From my perspective, this retirement age change is a good thing—it should permit greater opportunities for meaningful income tax planning with a larger number of clients. Here's why: taken together with the initial RMD age increase from 70 ½ to 72 per the 2019 SECURE Act, the further extended period before RMDs must begin will likely result in either full deferral over the extended period for some clients, or periodic pre-RMD withdrawals to fund Roth IRA conversions, set aside monies in other after-tax accounts, or meet additional living expenses for most clients.

Admittedly, some critics argue against the overall economic benefits of this SECURE 2.0 provision. Christine Benz, director of personal finance at Morningstar is one of them, tweeting that "delaying RMDs to age 75 is truly a solution in search of a problem, IMO." The way I see it, however, is that these tax planning opportunities can result in greater client financial resources to meet future retirement and long-term care costs.

2. 529 PLAN CHANGES

SECURE 2.0 provides an attractive solution for 529 plan owners and beneficiaries who, for one reason or another, don't use the entire account balance for its intended purposes of "qualified education expenses." Previously, unused funds could be withdrawn from a 529 account at a cost of a 10% penalty and income taxes on the earnings. Effective in 2024, SECURE 2.0 permits 529 plan account owners to convert a portion of the unused funds into a Roth IRA for the benefit of the 529 plan account beneficiary. Though, there are several limitations that come into play:

- The lifetime conversion limit is $35,000.
- The 529 plan account must be open for at least 15 years.
- Only funds deposited in the 529 plan account for more than five years prior to conversion may be converted.
- The annual limit on conversion is equal to the account holder's respective IRA contribution limit.

I know my clients who've overfunded 529 plan accounts will be pleased to know that some portion of these funds can be converted to Roth IRAs for their beneficiaries.

Notably, this piece of the legislation has removed most of the objections I hear from parents and grandparents about opening new 529 plan accounts. Most of their concerns revolved around questions like "what if the child doesn't go to college?" or "what if the child receives a scholarship and doesn't need all the money in the 529 plan account?" Until now, my response to these types of questions has been to remind clients that the funds can be used for more than one beneficiary and can be applied toward certain trade or vocational school programs. Now, beginning in 2024, I expect my reluctant clients will be more open to establishing 529 plan accounts knowing any funds not used for college can otherwise be used to help the young adults in their families begin to accumulate long-term wealth through Roth IRAs.

3. EXPANDED ROTH ACCESS

In response to the growing popularity of Roth IRAs, Jeff Bush, a professional speaker and public policy expert at The Washington Update, called the SECURE 2.0 Act an example of the "Rothification of the U.S retirement system." The 529 plan account provision described above is one example supporting Bush's claim.

Here are some other examples of the expanded use of Roth-type accounts available to individuals:

- **Savings Incentive Match Plan for Employees (SIMPLE) IRA, Simplified Employee Pension (SEP) IRA, and employer matching contributions in employer retirement plans.** Under SECURE 2.0, these plans and accounts can now hold or be made in after-tax dollars. Although the provisions are effective in 2023, employers must first amend plan documents. This strikes me as a legitimate effort to increase the attractiveness of funding employer-sponsored retirement accounts to more workers.
- **Catch-up contributions.** Starting in 2024, workers aged 50 and older who earn more than $145,000 in the prior year and who choose to make catch-up contributions in their employer-sponsored retirement plans must do so in Roth, rather than pre-tax, accounts. While some financial planning experts believe it's in a client's best interest to direct more contributions to Roth accounts and make fewer contributions to tax-deferred accounts, I'd prefer that clients have the flexibility to make that choice year by year.
- **Pension-linked emergency savings accounts.** Also starting in 2024, lower wage employees will have the option to contribute up to $2,500 per year (as long as the plan permits) to Roth-type savings accounts within the employer-sponsored retirement plan. Distributions to the employee must be permitted at least monthly, effectively giving workers near-term access to their retirement accounts.

These changes, whether effective in 2023 or later, represent some of the more common provisions to be reported in the general press. Therefore, these provisions may be on the minds of your financially focused clients. I encourage you to become more familiar with the legislation and to reach out to your clients about its benefits.