The SECURE Act 2.0: What You Need to Know

On December 29, 2022, President Biden signed into law the SECURE Act of 2022 as part of the Consolidated Appropriations Act, 2023 (H.R. 2617). The SECURE Act 2.0 contains hundreds of pages of laws that apply directly to individual retirement accounts, defined benefit and defined contribution plans, annuities, and other retirement savings arrangements. Like most laws that Congress passes for the retirement plan industry, it's hard to know what to pay attention to and what is important for your current and future retirement plan.

Security Mutual Life and **Security Administrators, Inc.**, have collaborated to provide the below abbreviated guide to Secure 2.0 to give you an idea of what the new law entails. While there are numerous, more granular provisions we're not going to cover, we've made the below summary of information we believe you need to know now, and without the usual legalese!

For Your Existing Plans:

Matching Can Now Be Roth!

Effective immediately, you can now elect to have the match contributions to your employees be treated as Roth contributions. What does that mean? Well, Roth money is a retirement contribution you pay taxes on now, so you don't have to pay taxes on it later. If you or your employees are concerned about tax burdens at retirement, Roth has always been a great option for your deferrals. Now, your match dollars can also be earmarked as Roth, giving you even more options for managing your post-retirement tax strategy.

RMD's Are Going Up, From 72 to 73 to… 75!

An RMD is a distribution you're required to take from your plan, at least annually, once you reach a certain age. Now, that age is increasing to age 73, from 72. Also, there will be gradual bumps until it goes all the way up to age 75 in 2033.

Retroactive First-Year Elective Deferrals for Sole Proprietors!

Self-employed clients without employees now receive extra time to contribute elective deferrals into their new 401(k) plans. They are no longer bound to December 31, or the end of their fiscal year. It's important to keep in mind that this benefit only applies to the first year in new plans; subsequent years will see sole proprietors still having to abide by the deferral rules.

Super Catch Ups!

You might already be familiar with the catch-up provisions in a 401(k) plan. A catch-up contribution allows you to defer even more money, past the usual limit, once you reach 50 years old. There are even more benefits to this for owners, as catch-up contributions aren't subject to the usual normal testing (like an ADP test) that deferrals are. Starting in 2025, participants ages 60-63 can contribute up to $10,000 as a catch-up (up from $7,500) to their 401(k) or 403(b) plan.

Roth Catch Ups!

Starting in 2024, for anyone making over $145,000 a year, those previously mentioned catch-up contributions have to be Roth. It's important to work with your TPA this year to prepare your plan to accept Roth contributions if you'll be affected.

Replacing a SIMPLE Plan with Safe Harbor 401(k) Plans During the Year!

Starting in 2024, employers will be allowed to change their SIMPLE plan to a Safe Harbor 401(k) plan during the course of a year.

For New Plans:

Start-Up Tax Credits!

If you have less than 50 employees, you will now receive a tax **credit** (not just a deduction!) of up to $5,000 toward the cost of installing your new plan. If the idea of a plan installation tax credit isn't nice enough, you can also receive tax credits toward profit sharing or match contributions to your employees, up to $1,000 per employee! There's **never** been a more fiscally opportune time to install that new qualified plan than now.

Auto-Enrollment!

Beginning in 2025, new 401(k) plans must have an auto-enrollment feature. This means that when you install the plan, or even hire someone new, they will automatically be enrolled in the plan after they satisfy their participation requirement, **and** automatically start deferring at a default rate of at least 3 percent. Then, their deferral rates will automatically increase by a percent a year until they hit between 10 and 15 percent. Employees can opt out of this, but it requires an election to do so.

The main takeaway here is that for employees, instead of opting in, new plans will be opt-out for deferrals and contribution increases. Auto-enrollment increases plan participation rates and automatically increasing contributions annually nudges the participant into building the retirement savings over time.

These items provide a very brief overview of some of the provisions of Secure 2.0. The common theme of the changes are to increase the rate of savings for your employees, and to incentivize larger nest eggs at retirement, which is something we all can get behind. However, some of the changes, like the auto-enrollment provisions and Roth catch-ups, make the necessity for a good Third-Party Administrator much more important. There are significant tax savings to be had (like those start-up credits!), but retirement plan administration is becoming significantly more complicated. Luckily, we're here to help you navigate the post Secure 2.0-world.

Please contact us if you have any questions, if you'd like to discuss any items further, or even if you need help administering your existing plan, or starting up a new one.

We want to help make your plan, your retirement, and your life Secure.

–Your friends at Security Mutual Life and Security Administrators, Inc.

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