TANDEM WEALTH MANAGEMENT

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The SECURE Act 2.0 - Highlights and Opportunities

Even politicians agree on the importance of helping all Americans retire successfully by providing increased options, contribution limits, and access to retirement plans. In the past, Americans relied on a combination of pensions and Social Security. Retirement income now consists of retirement savings and Social Security. The Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act took effect on December 29, 2022. This act expands on the changes to retirement already introduced by the SECURE Act of 2019. The goal of the SECURE legislation is to improve retirement security for Americans. Below are some of the highlights of the new version and possible opportunities:

Options:

Required Minimum Distribution (RMD): All existing RMDs remain the same. If you took an RMD in 2022, you will still be required to take one in 2023. However, if you turn 72 in 2023, you will not be required to begin your RMD from your Pre-tax Retirement Accounts until 2024. The age will increase to 75 in 2033. Previously, your RMD began in the year in which you turned 72. Many retirees welcome this change because it provides choices of when and where to take withdrawals to supplement income or to postpone distributions if the money is not needed.

This change also allows for a delay of taxable income and more time for financial planning during the extra year. In addition, it provides the opportunity to consider Roth Conversions to convert pre-tax money in a low-tax rate environment. The RMD amount is calculated based on the balance in the IRA at Year-end, so the more that is converted to a Roth IRA, the lower the RMD will be. Roth conversions also provide a tax-free income source in retirement (if held for 5 years) and tax-free inheritance to your heirs.

Lower Penalty for Missed RMDs: We ensure that our clients take their RMDs. Previously, if individuals did not take their RMD, the penalty was 50% of the missed distribution. Now, the penalty has been reduced to 25%, or 10% if the distribution is self-corrected. Historically, the IRS did not aggressively monitor missed RMDs, but with the current penalties and reporting, it seems reasonable that the IRS will begin monitoring and assessing penalties.

Qualified Charitable Distributions (QCD): The opportunity to have a donation sent directly from your IRA to a charity at age 70 ½ continues. The QCD is not treated as taxable income. Since many taxpayers no longer itemize, this provides an avenue for tax-free giving.

529 Plan Roth Option: 529 Plans are tax-deferred and tax-free vehicles for educational expenses, including secondary and beyond. Currently, distributions are tax-free if used for qualified educational purposes like high school and college tuition, purchasing a computer, and room & board.

Previously, overfunding was a common yet unlikely concern. Under the current rules, earnings on distributions for non-qualified educational expenses would be taxable income and incur a 10% penalty. Beginning in 2024, if the 529 plan has been in existence for 15 years, the 529 Plan owner can transfer a maximum of $35,000 to a Roth IRA for the current beneficiary. The transfer would take several years to complete since the annual Roth Contribution limits would apply. For instance, the Roth Contribution limit is $6,500 in 2023. Most suspect that changing the beneficiary of the 529 plan would re-start the 15-year rule.

Limits:

Increased IRA Catch-up Contributions: Beginning in 2024, catch up contributions will be indexed for inflation in $100 increments. Unlike 2023, only the contribution limits increased while the catch-up amounts remained the same.

Increased Catch-up Amounts for Retirement Plans:
Beginning in 2025, eligible participants who are 60, 61, and 62 can contribute up to the greater of $10,000 or 150% of the regular catch-up amount in 401(k), 403(b), 457, SAR-SEP, and Simple 401(k). Eligible participants in Simple IRA Plans can contribute the greater of $5,000 or 150% of the regular catch-up amount starting in 2025. Note specific catch-up contributions must be made on a Roth basis if the employee's compensation for the year prior exceeds $145,000.

Access:

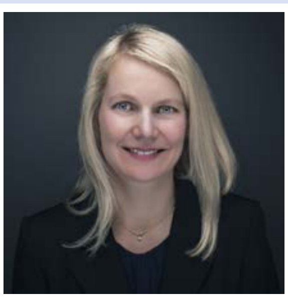
Student Loan Payments: These payments can now be considered as deferral amounts when calculating an employer match. This helps individuals who could not afford to defer into a plan after their student loan payments were made.

Part-time Employees: Part-time employees will be eligible to enroll in retirement plans sooner since the eligibility has been reduced from three to two years.

Automatic Enrollment: For plans established in 2025, employers will be required to automatically enroll employees in all 403(b) and 401(k) Plans. Once eligible, employees will have to opt-out of retirement plans. Behavioral finance shows that individuals benefit from a nudge such as Automatic Enrollment since they are less likely to opt-out than opt-in. Employees will begin automatically deferring 3%, with a 1% increase every year up to a minimum of 10% but not more than 15% of an employee's gross compensation for Safe Harbor Plans. Non-safe harbor plans cannot exceed 10%.

The above is simply an overview; the full impact of the SECURE Act 2.0 will be considered as we continually update your Financial Plan.

Kind regards,
Meghan



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