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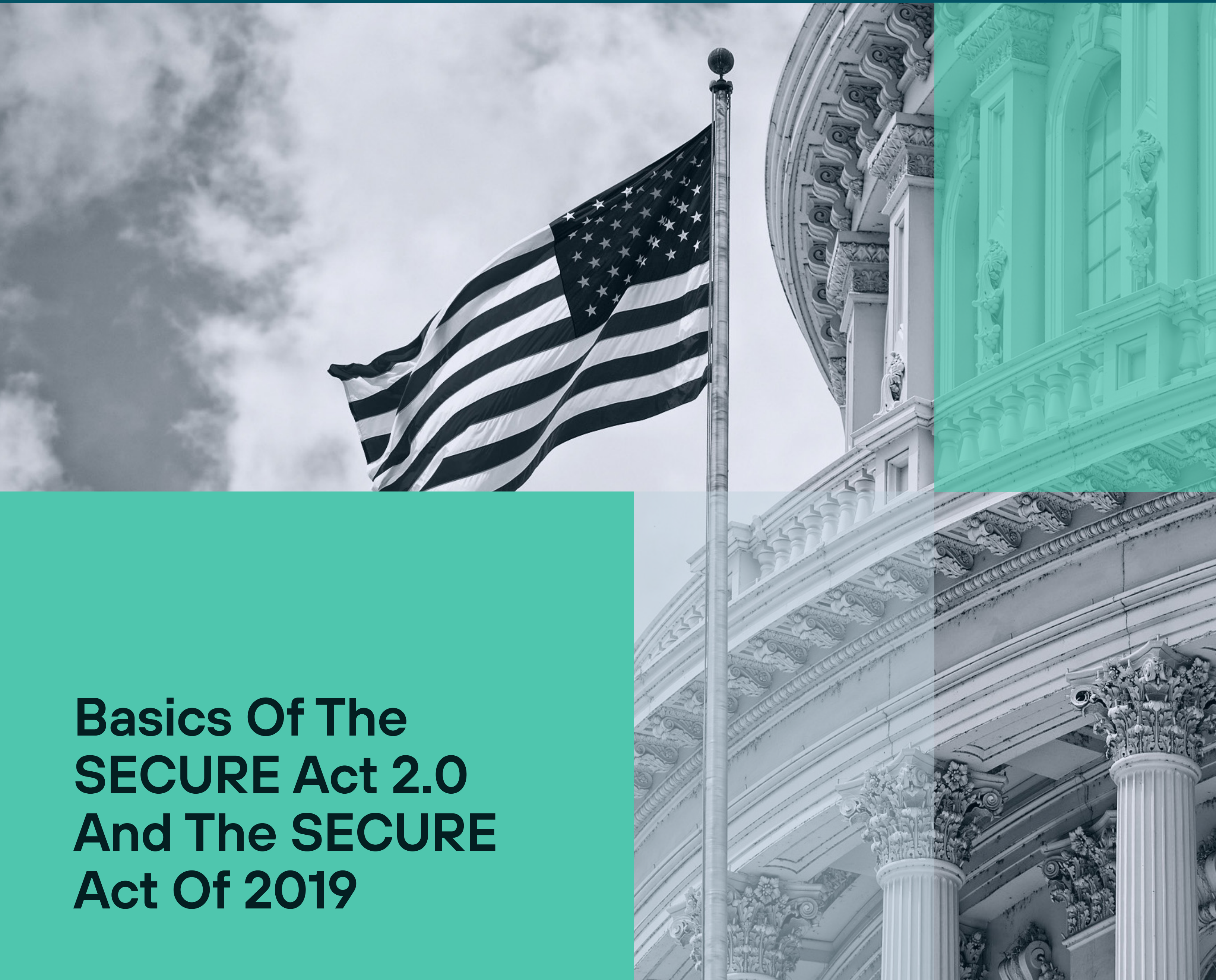
The SECURE Acts



Basics Of The SECURE Act 2.0 And The SECURE Act Of 2019

Congress passed the second installment of the SECURE Act under the Omnibus Spending bill of 2023, containing major changes to the retirement planning landscape.

Why Did Congress Pass The SECURE Acts?[1]

As Americans spend more years in retirement, the Social Security Administration will not be able to pay all the benefits promised in the near future if nothing about the retirement system changes currently. Due to these pressures on federal retirement programs, legislators restructured retirement laws to make it easier for people to fund their own retirements and for businesses to offer their own retirement benefits. Many of these changes were addressed in a single bill or round of legislation. This legislation was called the Setting Every Community Up For Retirement Enhancement (SECURE) Act.

In the past, retirees could typically rely on pension and Social Security benefits for the rest of their lives. But today's retirees are part of the first generation that often must fund their own retirement. Even for those who have saved diligently over many years, the threat of outliving one's money is legitimate. Lawmakers recognized the changing needs of today's retirees and passed the SECURE Act in 2019 and the SECURE Act 2.0 in the final days of 2022.

It's important to seek advice on how to create and update your retirement plan based on the new provisions of the SECURE Acts so that you can take advantage of the opportunities they created and avoid the pitfalls. At VestGen Wealth Partners, we can explain how the latest retirement legislation could affect you specifically. The rules are complex, but your objectives may be as simple as finding strategies to help minimize your taxes, grow your savings, and pass on your wealth to your loved ones.

Given that the most recent SECURE Act legislation supersedes some of the changes made in the SECURE Act of 2019, it's important to first be aware of the key details of SECURE Act 2.0.

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What's In The SECURE Act 2.0?

The new legislation will encourage and incentivize workers to save for retirement in a few ways:

01 Required Minimum Distributions (RMDs)[2, 3]

The SECURE Act 2.0 increases the age at which RMDs (the requirement to withdraw certain percentages of your traditional retirement accounts as you age) start to 73 in 2023 and to 75 after 2032. This went into effect on January 1st, 2023, for anyone who turns 72 after that day. In addition, the RMD penalty was cut in half from 50% to 25%, starting in 2023. Make sure to check your RMD obligations and plan around them. A financial advisor is your best teammate in achieving clarity on how RMDs work. And remember, Roth 401(k)s do not have RMDs applied to them anymore.

02 Automatic Employer-Sponsored Retirement Plan Enrollment[2, 4]

Starting in 2025, most newly administered employer-sponsored retirement plans, whether 401(k), 403(b), or some other employer-sponsored plans, will automatically enroll workers when they become eligible. The automatic enrollment amount starts at a minimum of 3% of your salary and increases by 1% every year until it gets to 10%, but not more than 15%.

Automatic enrollment in a retirement plan is designed to make it easier for employees to participate. Employees who prefer not to participate can opt out. New businesses less than 3 years old, churches, and governmental plans are exempt from the requirement for small businesses with 10 or fewer employees. To add even more convenience, businesses can integrate automatic enrollment with payroll.

03 Catch-Up Contributions Changes[2, 5]

Starting in 2025, those between 60 and 63 can contribute an additional $10,000 to their 401(k), 403(b), and $5,000 to a SIMPLE plan. In 2025, This extra catch-up amount is $11,250, and for SIMPLE plans $5,250. And starting 2026, all catch-up contributions for workers with annual wages over $145,000 (indexed to inflation for subsequent years) during the previous year will be required on a post-tax (Roth) basis.

04 SIMPLE And SEP IRAs And 401(k) Changes[6, 7, 8]

Catch-up contributions under SIMPLE IRA and 401(k) plans will increase by 10% of the current limit for employers with 25 or fewer employees. Employers with 26 to 100 employees would be permitted to provide higher deferral limits, but only if the employer either provides a 4% matching contribution or a 3% employer contribution. Employers can adjust their plans to allow employees to elect that employer-matching and non-elective contributions be made as Roth (after-tax) contributions as long as they are fully vested when contributed to the plan. Plus, SEP and SIMPLE IRA Plans can now be offered with Roth treatment as well.

05 IRA Limitation Changes[9]

As opposed to the flat dollar amount limitations, IRA contribution limits would be indexed to inflation starting in 2025.

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06 Student Loan Support Through Retirement Accounts[3, 9]

529 accounts, which are structured for educational expenses, can be converted to Roth accounts if the account has been open for at least 15 years. The annual Roth rolled-over amount can't exceed the contribution limit, up to a lifetime limit of $35,000. In addition, people paying off student loans can now receive a 401(k) match for doing so.

07 Changing The Saver's Credit[2, 10]

The Saver's Credit offers extra tax savings in the form of $1,000 to low- and medium-income earners who save for retirement. Starting in 2027, The SECURE Act 2.0 will change the saver's credit to a "Saver's Match" by, instead of deducting an amount from their tax bill, directly depositing the matching amount to the qualified individual's traditional retirement account of their choice.

The upper income limit for determining whether certain individuals are eligible for the saver's tax credit (also known as the retirement savings contributions credit) will increase to $79,000 (up from $76,500) for married filing jointly; to $59,250 (up from $57,375) for head of household filers; and $30,750 to $39,500 (up from $38,250) for all other taxpayers.

08 Retirement For Part-Time Workers[2]

Starting in 2025, more part-time workers will be eligible to join their company's retirement plans, like 401(k) and 403(b)s. Also, if you work at least 500 hours a year for two years in a row, you'll get the chance to start saving in these accounts. This opens up retirement savings options for people who might have been left out before.

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The Act Generally Expands Retirement Savings Access

There are many other provisions that aim to increase the access and ownership of retirement accounts for individuals. As a result, this legislation aims to increase retirement-saving vehicle access to those who previously didn't have that access, such as part-time workers or workers in niche vocations.

Emergency Savings Opportunities[11]

Workers who are not yet 59 ½ years old could take out up to $1,000 from their retirement account without facing the usual 10% penalty for early withdrawal.

- It's important to note that the distribution would have to be repaid within three years of its withdrawal.
- Qualified expenses could be for preventing foreclosure or eviction, funeral expenses, medical care expenses, tuition expenses, or other exempt categories provided by the IRS. To qualify for the exemption, you will be required to provide evidence of these events and needs.
- Employers could also enable staff to establish post-tax emergency savings accounts through regular salary payments up to a limit of $2,500.

Added Advantages And Increased Access To Annuities[14]

- Annuities are insurance-based financial products that are structured to provide you with steady, even lifetime income in retirement, along with other customizations that, for a fee, can help you protect against risks in your life and in the markets.
- The SECURE Act 2.0 legislation makes it easier to buy annuities by easing technical RMD requirements for annuities. The Act also makes Qualified Longevity Annuity Contracts (QLACs) more appealing by increasing the amount of your retirement savings you're allowed to use to buy a policy. Previously, there was a 25% cap on this amount. But with the passage of this Act, that limit is removed and increases the$125,000 limit up to $200,000. This means you can buy more lifetime income with a QLAC and help lessen the effects of RMDs.

The More You Know[12, 13]

A low-asset 401(k) can be transferred to a new employer-sponsored retirement account without the previous employer's consent.

- The Act introduces starter 401(k) plans, which are designed for businesses to offer retirement savings to employees without as much of a bureaucratic process for the employer, further encouraging them to offer retirement plans to their employees.
- Funding was allotted to the Department of Labor to build an online database of employer-sponsored retirement accounts so it's easier to track down and manage your retirement accounts when switching jobs. The database is scheduled for launch in 2025 by the DOL for 401(k)s. This is essentially a lost-and-found for these accounts.

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Original SECURE Act Summary[15]

The original SECURE Act was the biggest piece of retirement legislation to be passed in years and included many important changes for those in and preparing for retirement. These changes had important tax and estate planning implications for retirees and their heirs. Here were some of the most important changes:

The Rules For Retirement Accounts Changed

Required Minimum Distributions used to start at age 70 ½ but were increased to start at age 72. Prior to the passage of the SECURE Act, you could not contribute to a traditional IRA after the age of 70 ½.

Elimination Of The "Stretch IRA"

The stretch IRA was an estate planning strategy that allowed heirs to stretch out distributions based on their own life expectancies instead of the life expectancy of the previous owner. Now, most non-spouse beneficiaries inheriting an account after 2019 must drain an inherited account within ten years of the original owner's death.

Expanded 529 Plan Benefits

529 Plan owners and beneficiaries could distribute a maximum of $10,000 to cover qualified student loan repayments. This change meant parents, grandparents, or other family members could now have the option to contribute to a student's 529 plan while a student is in college and use those funds to repay loans tax-free after graduation.

What do you do when the rules are constantly changing?

OPTION 1

Let your financial plan become outdated and risk the consequences.

OPTION 2

Educate yourself and go to a professional with expertise in retirement planning.

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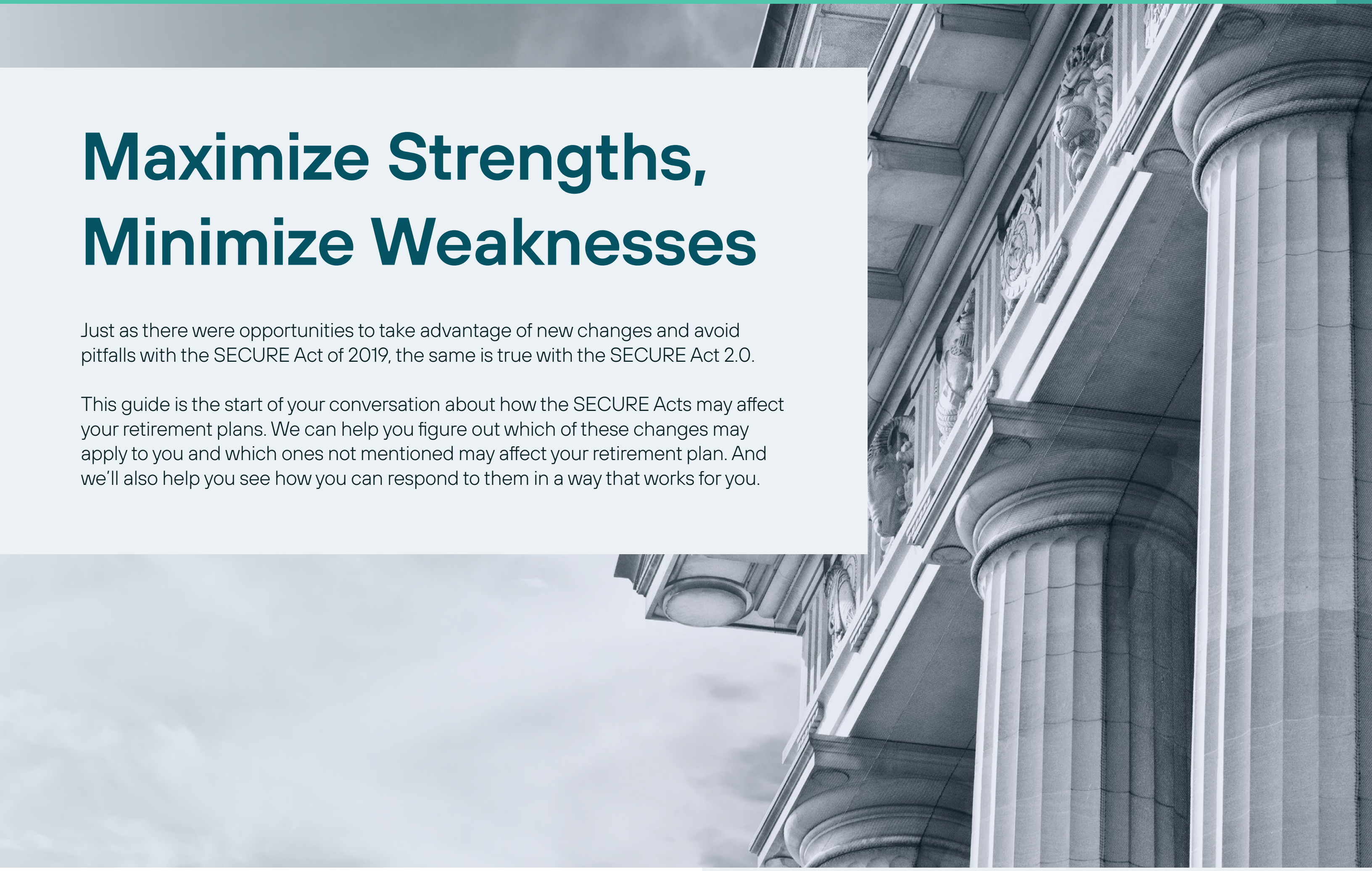

Maximize Strengths, Minimize Weaknesses

Just as there were opportunities to take advantage of new changes and avoid pitfalls with the SECURE Act of 2019, the same is true with the SECURE Act 2.0.

This guide is the start of your conversation about how the SECURE Acts may affect your retirement plans. We can help you figure out which of these changes may apply to you and which ones not mentioned may affect your retirement plan. And we'll also help you see how you can respond to them in a way that works for you.

The SECURE Act will affect most retirees in some form or another, but the ways in which it may do so will depend on each person's unique financial situation. In addition, unless you are a financial professional who keeps up with the details of new regulations and retirement landscape changes, it's unfeasible for you to expect to catch every change that can affect you, especially with the passage of this massive, landscape-changing piece of legislation.

But that's why VestGen Wealth Partners is here. We can help you create a plan tailored to your specific needs and continue working with you throughout your retirement to make sure it is properly fitted to your goals, given the changing financial environment. So don't wait! Call us at **(847) 907-9600** or visit us online at **GetRetiredStayRetired.com** to schedule your complimentary meeting with our financial professionals.

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