SECURE Act 2.0: 2024 Is Here!

Additional SECURE Act 2.0 provisions take effect in 2024. Here are the highlights on the provisions your clients need to know.

Passed in December 2022, the Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0 spread the effective dates of its provisions over several years to meet the requirements of budget reconciliation. The following simple overview can help start discussions with clients about key provisions that may affect their retirement planning.

1. **529 transfers to Roth IRAs.** If the beneficiary of a 529 plan doesn't use all his or her funds, the SECURE Act 2.0 offers a new option that can help the beneficiary get a head start on saving for retirement. The 529 plan owner can roll assets from the 529 plan directly to a Roth IRA for the benefit of the 529 beneficiary. However, there are specific rules:

- The 529 plan must be established for 15 years.
- Contributions and earnings from the previous five years are not eligible for rollover.
- The rollover must be accomplished through a trustee-to-trustee transfer.
- The annual amount is limited to the current annual Roth IRA contribution limit (reduced by other IRA contributions).
- The lifetime maximum for 529 rollovers to Roth IRAs is $35,000.

Questions still require additional guidance: Is there a new 15-year requirement if a beneficiary is changed? Is there a difference between a change between siblings versus a change from parent to child? We await IRS guidance to answer these and similar questions.

2. **Catch-up contributions required to be treated as Roth contributions (DELAYED until 2026).** 401(k) plans allow participants age 50 and older to contribute additional funds to their accounts. The SECURE Act 2.0 requires that catch-up contributions receive Roth tax treatment—with an exception for employees with wages of $145,000 or less (indexed for inflation) from the employer sponsoring the plan. The provision does not apply to SIMPLE IRA plans.

Many plan sponsors were concerned that the systems to manage this change would not be in place by 12/31/23. In Notice 2023-62, the IRS announced that the next two years would be considered a transition period for this provision. The Notice also clarifies that plans are not prohibited from allowing catch-up contributions.

For clients with higher incomes, the next two years will be a good time to evaluate whether Roth contributions will be beneficial. The time horizon to retirement and use of the funds may affect this decision, with those nearing retirement choosing to convert some traditional IRA funds to Roth accounts in preparation for the change in catch-up regulations.

3. **Eliminate required minimum distributions (RMDs) on designated Roth accounts (DRACs).** Roth IRAs do not require the owner to take distributions during his or her life. DRACs did—but not anymore. Effective 12/31/23, DRACs will no longer require the participant/owner to make lifetime distributions. However, beneficiaries are still required to take distributions.
4. **Flexibility for substantially equal periodic payments (SEPPs).** SEPPs allow owners of qualified accounts and nonqualified annuities who are younger than age 59½ to avoid the additional 10% federal income tax using an exception for payments based on a life-expectancy distribution. The payments must continue for the greater of five years or until the owner reaches age 59½. During that time, a "modification" of the account would cause the loss of SEPP status, resulting in taxes and penalties.

What is considered a "modification"? The SECURE Act 2.0 clarifies that a rollover or partial transfer is not automatically a violation of the tax-free rollover rule. This is true so long as the total payments from both accounts (the "old" and "new" accounts) equal the correct 72(t) amount. There does not appear to be a requirement for "proportional" distributions, so the SEPP distribution could come from one account. Self-certification is permitted.

This may help some clients who need to start a SEPP but also want a portion of the funds to be insured. It also may help some clients have more flexibility in their income plans.

5. **Student-loan payments can create a 401(k) match.** An employer sponsoring a 401(k) plan may now elect to use student-loan payments made by a participant for the purpose of determining matching contributions. This means that if at least 5% of a participant's salary is going to student-loan payments, the employer can make a 5% matching contribution to the 401(k). Self-certification is permitted, although many employers may want a copy of the check or record of the transfer.

Especially for a recently graduated student, this is an opportunity to start saving for retirement with dollars he or she could not otherwise access. It also is a great opportunity to reach out to clients who have children with loans and share the ways recent graduates can start to save. Plus, you can use that time to review the client's progress on his or her own retirement planning.

The SECURE Act 2.0 offers many opportunities for clients (and their families) to save more. This is a great time to guide clients through the options and determine what might work best.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Connect with clients with 529 or 401(k) plans.**
- **Review the new opportunities for saving.**
- **Determine whether clients should consider repositioning assets or make other changes.**

Additional Resources and Links

IRS Notice 2023-62

What Are the Rules for Making 401(k) Plan Matching Contributions on Student Loan Repayments?

SECURE Act 2.0—Finally!

For more information about the impact of SECURE Act 2.0 on retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.

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