INSIGHTS

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RETIREMENT STRATEGIES GROUP | MARCH 2025 TAX PLANNING

New Year, New Rules

Changes to the Setting Every Community Up for Retirement Enhancement (SECURE) Act, dubbed the SECURE Act 2.0, bring several new provisions in 2025 for IRAs and 401(k)s.

For 2025, the SECURE Act 2.0 changes some rules for inherited IRAs and Roth IRA conversions. The changes also include measures designed to encourage employees to contribute to their employers' 401(k) and 403(b) plans.

New 10-Year Rule for Inherited IRAs Takes Effect

Designated beneficiaries, except for certain eligible designated beneficiaries, as defined in the Internal Revenue Code, Designated Beneficiaries, who have inherited an IRA from someone who died on or after January 1, 2020, must withdraw all funds from the IRA no later than December 31 of the tenth year following the death of the IRA owner. **New for 2025** is that if the owners die on or after their required beginning dates for distributions (that is, they were already taking their distributions), then beneficiaries must also take RMDs in years 1—9 and liquidate any remainder by 12/31 of the year that is the 10-year anniversary of the death of the owners. For more information, read our full blog post on this topic, which includes some examples.[1]

Takeaway: Distribution may be required from inherited IRAs in 2025. Now might be the time to review client accounts for compliance with the new rules.

All RMDs Must be Taken Prior to Enacting a Roth Conversion

The 2024 final SECURE Act regulations require that all RMDs must be taken prior to converting any IRA to a Roth IRA. This means that if a client holds IRAs at multiple different custodians, the RMD for all of them collectively must be satisfied before any single account can be converted to a Roth IRA.[2]

Takeaway: Clients interested in converting to Roth IRAs will need to be made aware of the need to take all their RMDs before conversion.

Roth Catch-Up Rule for High Earners

A provision requiring high earners (those with an inflation-adjusted income more than $145,000) to make their catch-up contributions to their designated Roth accounts has been postponed until 2026.[3]

Super-Sized 401(k) Catch-Up Contributions for People Ages 60 to 63

Catch-up contributions allow employees ages 50 and older to make additional deposits into their tax-deferred retirement savings accounts. A change for the 2025 tax year is that active participants who are ages 60 to 63 can contribute the greater of $10,000 or 150% of the 2024 catch-up contribution limit that is indexed for inflation.

[1]Internal Revenue Service. "Publication 590-B (2023), Distributions from Individual Retirement Arrangements (IRAs)." *Publications.* IRS.gov, September 10, 2024.

[2]Internal Revenue Service, Department of the Treasury. "Required Minimum Distributions Final Regulations." Federal Register Vol. 89, No. 139. U.S. Government Publishing Office, GovInfo.gov, July 19, 2024.

[3]Office of Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes). "Guidance on Section 603 of the SECURE 2.0 Act with Respect to Catch-Up Contributions, Notice 2023-62." Internal Revenue Service, August 25, 2023.

As a result of the change, in 2025, the total limit for 401(k) catch-up contributions for those turning ages 60 to 63 is **$11,250**. A participant can take advantage of the super-sized catch-up contribution if he or she turns 60 but are not older than age 63 by the end of the calendar year. For those ages 50—59, the 2025 limit on catch-up contributions for 401(k)s is **$7,500**.[1]

Takeaway: Clients in their early 60s may want to contribute more in their workplace retirement accounts.

Automatic 401(k) Enrollment

The SECURE 2.0 requires 401(k) and 403(b) plans that were established on or after December 29, 2022, to automatically enroll eligible employees starting in 2025 unless an exception applies. The initial contribution amount must be at least 3% but no more than 10%. Each year after, the amount is increased by 1% until it reaches at least 10%, but not more than 15%. Automatic enrollment does not necessarily mean mandatory participation. Employees can change the contribution rate or opt out entirely.[2]

Takeaway: Ensure that your small-business-owner clients with workplace retirement plans are prepared for this change.

Clients Are Looking to You

These SECURE Act 2.0 changes can significantly impact many of your clients, so it's important to understand these impacts and make sure your clients are informed and prepared.

ACTIONS YOU CAN TAKE RIGHT NOW

- **Review your book of business for clients who may be impacted.**
- **Review clients' retirement goals and determine if eligibility for increased contributions can help achieve those goals.**
- **Review distribution requirements for all inherited IRA accounts.**

Additional Resources and Links

New Rule Requires RMDs on All IRAs Before Roth Conversion

Tax Management Ideas for the New Year

401(k) Contribution Limit Increases for 2025

[1]Office of Associate Chief Counsel (Employee Benefits, Exempt Organizations, and Employment Taxes). "2025 Amounts Relating to Retirement Plans and IRAs, as Adjusted for Changes in Cost-of-Living, Notice 2024-80." Internal Revenue Service, Nov. 1, 2024.
[2]Internal Revenue Service. "Treasury, IRS issue proposed regulations on new automatic enrollment requirement for 401(k) and 403(b) plans." *News Releases*. IRS.gov, Jan. 10, 2025.

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

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VLQ4194-0325 3/25 E328