SECURE THE BAG

Mastering SECURE 2.0 for Retirement and Estate Wins

OUR MISSION

Retirement has to be one of the most confusing assets that affect our clients and their estate plans. Retirement planning has only gotten more confusing with the passage of SECURE and SECURE 2.0. In a recent virtual seminar entitled "SECURE the Bag: Mastering SECURE 2.0 for Retirement and Estate Wins," our office outlined the changes in how retirement is paid to beneficiaries and the tax implications. We also wanted to provide some planning options for our clients with large retirement accounts. We hope this information allows you to better understand the complexities of your retirement account post-SECURE.

-Samantha K. Wolfe

WHAT IS SECURE 2.0

- Passed in 2022, this law builds on the original SECURE Act to improve retirement savings options and flexibility.
- Key Goals: Increase retirement savings.
- Provide more control over withdrawals and contributions.
- Enhance options for passing assets to heirs.

WHY SHOULD SECURE 2.0 MATTER TO YOU?

HELPS YOU AVOID PENALTIES ON REQUIRED MINIMUM DISTRIBUTIONS (RMDS).

OFFERS MORE WAYS TO CONTRIBUTE TO RETIREMENT ACCOUNTS.

PROVIDES STRATEGIES FOR TAX-EFFICIENT WEALTH TRANSFER.

SUPPORTS LEGACY PLANNING WITH UPDATES TO ROTH AND OTHER RETIREMENT ACCOUNTS.

REQUIRED MINIMUM DISTRIBUTION (RMD) AGE CHANGES

Required Minimum Distrabution (RMD):

- The minimum amount you must withdraw annually from your retirement accounts once you reach the age limit

Da'Rules

- Old Rule: RMDs began at age 72 (SECURE in 2020).
- New Rule: RMDs now start at age 73 (as of 2023).
- Future Rule: Will increase to age 75 starting in 2033.

Why This Helps

- More time for your investments to grow tax-deferred.
- Greater flexibility in planning withdrawals and tax strategies.

PENALTY REDUCTIONS FOR MISSED RMDS

OLD PENALTY:

50% OF THE MISSED RMD AMOUNT

NEW PENALTY:

REDUCED TO 25% (OR 10% IF CORRECTED QUICKLY).

PRO TIPS:

- **Always track your RMD deadlines to avoid penalties.**
- **Consider working with a financial advisor to automate withdrawls.**

EXPANDED CATCH-UP CONTRIBUTIONS

What Are Catch-Up Contributions?

- Extra amounts you can contribute to retirement accounts if you're 50 or older.

Changes Under SECURE 2.0:

- Starting in 2025, individuals aged 60-63 can make even larger contributions to 401(k), IRA, and similar plans.
- Key Benefit: Boost your savings before retirement.

ROTH Retirement Account Changes

Employer Roth Contributions:

- Employers can now offer Roth options for their matching contributions.

RMDs from Roth Accounts:

- Starting in 2024, Roth accounts in employer 401k plans are no longer subject to RMDs.

Why It Matters:

- Allows you to grow tax-free retirement savings without forced withdrawals.

Using Charitable Giving with SECURE 2.0

Qualified Charitable Distributions (QCDs):

- Direct donations from your IRA to a charity after age 70½.
- Counts toward your RMD without increasing taxable income.

New Limit:

- You can now make a one-time $50,000 QCD to fund a Charitable Remainder Trust (CRT) or Charitable Gift Annuity (CGA).

ROTH Retirement Account Changes

Passing Retirement Assets to Heirs:

- Most non-spouse beneficiaries must withdraw inherited IRAs within 10 years.
- Consider Roth conversions to reduce future tax burdens for your heirs.
- Most non-spouse beneficiaries must withdraw IRAs within 10 years.

Trust Planning:

- Ensure that trusts holding retirement accounts comply with SECURE 2.0's distribution rules.

More Traditional "Stretch IRA" for Most: Who Qualifies for the Exception?

SECURE Act Changes: The original SECURE Act (before SECURE 2.0) largely eliminated the "stretch" IRA for most non-spouse beneficiaries, unless there is an eligible designated beneficiary, replacing it with the 10-year rule.

Who are Eligible Designated Beneficiaries (EDBs)?:

- Spouses, minor children of the decedent (until they reach majority), disabled individuals, chronically ill individuals, and beneficiaries not more than 10 years younger than the decedent.
    - **Benefit for EDBs:** They can still stretch payments over their lifetime instead of the 10-year limit, providing more flexibility in managing taxes.
    - **Non-Eligible Beneficiaries:** Most adult children, siblings, and other non-spouse individuals must empty the inherited account by the end of the 10th year following the IRA owner's death.

TRUSTS AS BENEFICIARIES:

PROS, CONS & COMMON PITFALLS

Pros:

- Control Over Distribution: You can restrict or manage how your beneficiaries receive the funds (especially helpful for younger or spendthrift beneficiaries).
- Protection from Creditors: Properly structured trusts can protect inherited funds from creditors or divorcing spouses.
- Estate Planning Efficiency: Consolidates management of assets under one entity.

Cons/Pitfalls:

- Potential for Accelerated Payouts: If the trust isn't carefully drafted ("see-through" trust rules), it might trigger the 10-year payout rule or worse.
- Complexity & Compliance: Trusts must have specific language to qualify for favorable stretch or EDB treatment. A poorly drafted trust can cause unwanted tax consequences or force immediate distribution.
- Ongoing Administration Costs: Trustees must handle RMDs properly and maintain accounting. This can increase complexity.

Key Takeaway:

- Always ensure the trust is "see-through" if you want to maximize deferral. Work closely with an attorney who understands both estate planning and retirement distribution rules.

Expanded Access to 529 Plan

What Changed:

- Starting in 2024, beneficiaries of 529 education savings plans can roll over unused funds into a Roth IRA.

Rollover Limit:

- Up to $35,000 over the beneficiary's lifetime.
- The 529 plan must have been open for at least 15 years.

Why This Matters:

- Helps prevent overfunded 529 plans from being wasted or taxed.
- Offers a tax-free way to transfer wealth to children or grandchildren.

New Rules for Employer Matching Contributions

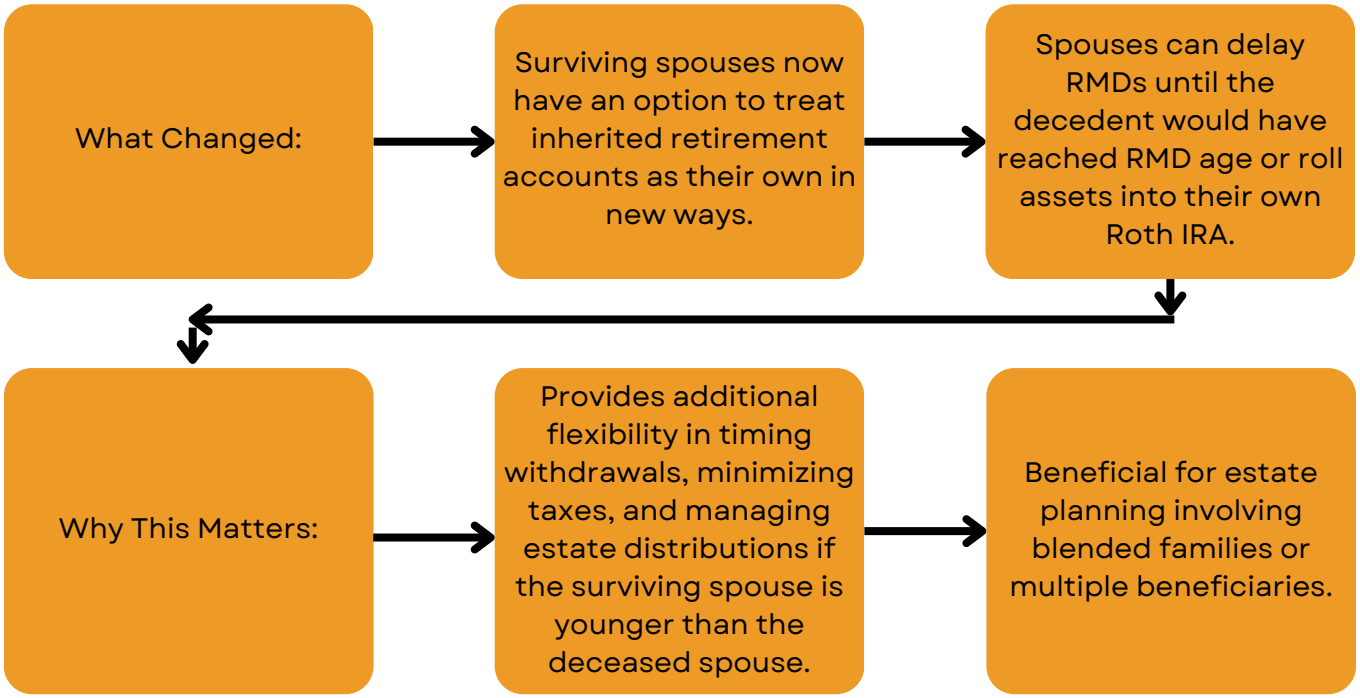
What Changed:

- Employers can now offer matching contributions to Roth 401(k) accounts instead of only traditional accounts.
- These Roth matches are taxable now but grow tax-free.

Why This Matters:

- Clients may want to review employer plan options to maximize tax-free retirement savings.
- Could provide greater long-term growth for legacy planning.

Surviving Spouse Rollover Flexibility



Small Business Owners and Retirement Plans

What Changed:

- SECURE 2.0 provides increased incentives for small business owners to offer retirement plans, including higher tax credits.
- Starter 401(k) plans are now available for businesses without existing plans.

Why This Matters:

- Business owners can leverage these incentives to build retirement savings both for themselves and their employees.
- Estate planning for business succession may need to account for these enhanced retirement benefits.

Automatic Enrollment and Escalation

What Changed:

- New 401(k) and 403(b) plans must automatically enroll employees, with contributions starting at 3%, with annual auto-escalation of at least 1% until reaching 10% to 15%, unless employees choose to opt out.

Why This Matters:

- Helps build retirement assets earlier, which can improve overall wealth for legacy planning.
- Clients nearing retirement should understand how these changes affect their contributions and long-term savings.

Elimination of Pre-Death RMDs for Roth Accounts

What Changed:

- Starting in 2024, Roth accounts within 401(k) plans are no longer subject to RMDs during the account holder's lifetime.

Why This Matters:

- Roth accounts can now continue growing tax-free, making them ideal for estate planning.
- Clients should consider consolidating or converting retirement funds to Roth accounts to reduce taxable RMDs for heirs.

Long-Term, Part-Time Worker Eligibility

What Changed:

- Part-time employees working 500+ hours per year for two consecutive years are now eligible to participate in employer-sponsored retirement plans.

Why This Matters:

- Provides additional opportunities to build retirement savings for those with irregular employment histories.
- Helps clients with part-time work increase their retirement assets and plan for their estate.

Strategies for Maximizing SECURE 2.0 Benefits

Delay RMDs: Use the extra time to let your investments grow.

Consider Roth Conversions: Reduce future taxable RMDs by converting Traditional IRAs to Roth IRAs.

Optimize Catch-Up Contributions: Max out your retirement accounts, especially as you approach retirement age.

Common Questions About SECURE 2.0

Q: "Do I need to take RMDs from all accounts?"

A: No, you can aggregate RMDs from similar account types, such as IRAs.

Q: "How does this affect my estate plan?"

A: You may need to update beneficiary designations and trust provisions to reflect new rules.

Q: "Can I still donate through my IRA?"

A: Yes, **Qualified Charitable Distributions (QCDs)** remain a valuable strategy.

How Can We Help?

1

Evaluate Your Retirement Plan:

- Review your accounts with a qualified attorney and your financial advisor.
- Identify opportunities to take advantage of new SECURE 2.0 rules.

2

Update Your Estate Plan:

- Ensure your beneficiary designations, trusts, and legacy plans align with these changes.

3

Remember: Proper planning today can help secure a comfortable retirement and leave a lasting legacy for your family.

Thank you for reading!

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