



**The SECURE Act
and SECURE Act 2.0:**
WHAT YOU NEED TO KNOW

The SECURE Act of 2019 and the recent enactment of the SECURE Act 2.0 establish several new provisions that will affect most Americans who are saving for retirement. The SECURE Act is an acronym which stands for Setting Every Community Up for Retirement Enhancement.

Following are five aspects of the SECURE Act and SECURE Act 2.0 that will most likely impact your retirement and legacy planning:

1. PASSING IRAs ON TO HEIRS

The Secure Act of 2019 essentially eliminated the “Stretch IRA.” Beneficiaries who inherit IRAs can no longer leave that money in tax-deferred status forever. Instead, beneficiaries must deplete the inherited IRA within 10 years unless the assets are left to a spouse or another beneficiary who meets certain exceptions or exemptions.¹

Those who do not meet the exemptions must take larger distributions during the new 10-year window², and incur a stiffer tax obligation, at a time in life when they may not need the additional funds.

Whether you plan to leave an IRA to loved ones, or you expect to inherit an IRA, you need to be aware that the tax burden may occur at the worst possible time – during peak earning years.

As a rule of thumb, children should not be the primary beneficiary on anything if your spouse is living. Consult your financial advisor to review the beneficiaries on your accounts.

2. REQUIRED MINIMUM DISTRIBUTION AGE CHANGES

One favorable change from the initial SECURE Act was the extension of the date for taking required minimum distributions (RMDs) from age 70½ to age 72. SECURE Act 2.0 pushed the start out again to age 73 for anyone born between 1951 and 1959, or age 75 for anyone

born in 1960 or later. In addition, you can start withdrawing money from your accounts, and paying taxes on those withdrawals a bit later, by at least April 1 of the year *after* you reach 73.³

It is important to remember to calculate and plan for taking RMDs because of hefty penalties. While the amount has been reduced, it can still be as much as 25% on every dollar not withdrawn properly.⁴

Congress enacted the change in dates because life expectancies continue to rise. If retirees are living longer, it seems only fair to defer taxes longer, too. Be aware of the correct dates for taking RMDs and the tax burden those withdrawals create. Your financial advisor can refer you to a qualified accountant.

3. IRA CONTRIBUTION AGE LIMITATIONS

Increased life expectancies also prompted elimination of the maximum age for traditional IRA contributions.

Previously, if you worked past the age of 70½, you could contribute post-tax dollars to a Roth IRA but not pre-tax dollars to a traditional IRA. Now, anyone who continues to work up to their 71st birthday and beyond can invest wages into a traditional IRA. This creates the additional possibility for converting a traditional IRA into a Roth IRA to enjoy potential tax benefits.⁵

Roth conversions can be a great method for growing and distributing tax-free funds to yourself and your beneficiaries because you’re not taxed on gains or distributions from a Roth account. However, Roth conversions are not ideal for everyone.

The process requires proper budgeting. A financial advisor can evaluate your situation, assess strategies for contributing to a traditional IRA and determine if Roth IRA conversions are advantageous for you. A Roth conversion is a taxable event and may have several tax-related consequences. Be sure to consult with a qualified tax advisor before making any decisions regarding your IRA.

4. RETIREMENT PLAN CATCH-UP CONTRIBUTIONS

Individuals nearing retirement age can bolster their savings with up to an extra \$1,000 annually. Under Secure Act 2.0, this amount will be adjusted for inflation starting in 2024.⁶

In addition, certain plan participants (e.g., 401(k) and 403(b) plans) aged 60-63 are eligible to make larger catch-up contributions starting in 2025. The new limit will be the greater of \$10,000 or 150% of the regular catch-up amount for these individuals in 2025, and after 2025, the increased amounts will be indexed for inflation.⁷

5. 529 PLAN ROLLOVERS TO ROTH IRA

Those looking at long-term, intergenerational financial success could benefit from the new Congressional provision allowing up to \$35,000 in 529 plan funds to be transferred into Roth IRAs. Taking effect in 2024 and for accounts open more than 15 years, this measure can help maximize wealth inheritance potential when combined with strategic planning. There are some conditions that apply, so talk with your financial advisor to see if it's right for you.⁸

HOW TO RESPOND TO SECURE ACT AND SECURE ACT 2.0 CHANGES

The SECURE Acts include several changes beyond the five aspects outlined here. Additional arrangements should be considered to address provisions related to estate and retirement planning.

An experienced advisor can either directly assist or help you find assistance with matters pertaining to both SECURE Acts.

What are your best moves?

1. Contact an estate planning attorney
2. Have your beneficiaries reviewed by an advisor
3. Determine benefits of Roth IRA conversions
4. Review any existing trusts
5. Consider a charitable remainder trust

^{1,2} IRS. Dec. 9, 2022. "Retirement Topics - Beneficiary." <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-beneficiary>. Accessed Jan. 25, 2023.

³ Senate Finance Committee. Dec. 19, 2022. "SECURE 2.0 Act of 2022." Section 107. https://www.finance.senate.gov/imo/media/doc/Secure%202.0_Section%20by%20Section%20Summary%2012-19-22%20FINAL.pdf. Accessed Jan. 25, 2023.

⁴ Senate Finance Committee. Dec. 19, 2022. "SECURE 2.0 Act of 2022." Section 302. https://www.finance.senate.gov/imo/media/doc/Secure%202.0_Section%20by%20Section%20Summary%2012-19-22%20FINAL.pdf. Accessed Jan. 25, 2023.

⁵ IRS. Dec. 21, 2022. "Retirement Topics - IRA Contribution Limits." <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits>. Accessed Jan. 25, 2023.

⁶ Senate Finance Committee. Dec. 19, 2022. "SECURE 2.0 Act of 2022." Section 108. https://www.finance.senate.gov/imo/media/doc/Secure%202.0_Section%20by%20Section%20Summary%2012-19-22%20FINAL.pdf. Accessed Jan. 25, 2023.

⁷ Senate Finance Committee. Dec. 19, 2022. "SECURE 2.0 Act of 2022." Section 109. https://www.finance.senate.gov/imo/media/doc/Secure%202.0_Section%20by%20Section%20Summary%2012-19-22%20FINAL.pdf. Accessed Jan. 25, 2023.

⁸ Senate Finance Committee. Dec. 19, 2022. "SECURE 2.0 Act of 2022." Section 126. https://www.finance.senate.gov/imo/media/doc/Secure%202.0_Section%20by%20Section%20Summary%2012-19-22%20FINAL.pdf. Accessed Jan. 25, 2023.

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