NAIFA | Advocacy

SECURE 2.0: What You Need to Know

Webinar Summary & Key Points

SECURE 2.0 is now law, having passed as a part of the omnibus government funding bill in late December. The legislation is a massive retirement-planning reform package with more than 90 provisions. It builds on the original SECURE Act, passed in 2019, but is larger and more impactful than that legislation.

Erin Wood, CFP®, CRPC, FBS, Senior Vice President, Financial Planning at the Carson Group; Dani Kehoe, Principal at DBK Consulting; and Jayne Fitzgerald, NAIFA Director of Government Relations took a deep dive into the law, explaining how many of the provisions will impact NAIFA members and their clients.

Provisions generally impact retirement planning in three categories: those affecting individual participants, those affecting employer plan designs, and those affecting plan administration. This document provides a brief overview of a few provisions. For a more thorough treatment, refer to the on-demand recording of the webinar, the webinar slide deck, and the upcoming FAQ at members.naifa.org/secure-2.0-resources.

Individual Participant Provisions

Provisions affecting individuals for the most part provide greater flexibility and opportunities for those planning for retirement. There are significant changes to the rules for required minimum distributions (RMDs). The age at which plan participants must start taking RMDs goes up to 73 and eventually (by 2033) to 75, giving people more flexibility when drawing down their retirement funds. In 2024, RMDs are eliminated for Roth 401(k) accounts. SECURE 2.0 also reduces, from 50% to 25%, the excise tax incurred when participants take insufficient RMDs.

SECURE 2.0 increases the maximum allowed catch-up contributions to IRAs and retirement plans and indexes future catch-up limit increases to inflation. It allows people who have owned 529 education-funding plans for at least 15 years to roll over up to $35,000 from those plans into Roth IRAs, subject to Roth contribution limits. The law also allows individuals to use up to $2,500 (indexed) of retirement plan funds to pay for “certified” long-term care insurance without incurring early withdrawal penalties. Other provisions impacting individuals concern charitable distributions and an enhancement of the Saver’s Tax Credit.

Employer Plan Design Provisions

SECURE 2.0 requires new retirement savings plans to include an automatic enrollment feature to enroll eligible plan participants at a deferral rate of between 3% and 10% of the employee’s compensation. The provision does not require employer contributions and it allows employees to opt out of the automatic compensation deferral. The law also requires the automatic escalation of the deferral percentage at the rate of 1% per year until the employee’s total deferral rate reaches a threshold between 10% and 15% of compensation. Very small businesses, churches, governments, and plans sponsored by employers in business for fewer than three years are exempt.

The legislation includes several provisions that facilitate the use of annuity products in retirement plans. The law eases the minimum distribution rules applicable to life annuities by permitting such features as modest benefit increases of only 1% or 2%, return of premium death benefits, and period certain guarantees. The law repeals the current 25% limit on qualifying longevity annuity contracts (QLACs) and allows up to $200,000 (indexed) from a retirement plan account balance to be used to purchase a QLAC.

Employer Plan Design Provisions (continued)

SECURE 2.0 directs the Treasury Department to issue rules allowing variable annuities to offer exchange-traded funds as investment options and to permit account holders to combine annuity distributions with other account distributions for the purpose of calculating and fulfilling RMDs.

SECURE 2.0 allows employers to count an employee's qualified student loan payments when determining if the employee qualifies for a matching contribution to a 403(b), 401(k), 457(b), or SIMPLE plan. The law also contains provisions that would allow plan providers to make it easier for plan participants to make penalty-free emergency withdrawals and create pension-linked emergency savings plans.

Other plan-design provisions pertain to pooled employer plans (PEPs) and multiple employer plans (MEPs), tax credits for small businesses starting retirement plans, greater eligibility for long-term part-time employees, SIMPLE plan contribution limits, Roth catch-up contributions, and others.

Administrative Provisions

SECURE 2.0 simplifies reporting, notice, and disclosure requirements and has administrative provisions pertaining to employee stock ownership plans (ESOPs), government and first-responder plans, de minimis financial incentives to encourage participation in an employer-sponsored plan, rules applicable to special needs and domestic abuse situations, the processes used to correct errors in retirement plan administration, rules for "lost-and-found" accounts, distributions related to natural disasters, paper statement requirements, and various studies on the effectiveness of current rules and programs. Also included in the bill are technical corrections to the SECURE Act.

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