



Engage Clients & Prospects with
Discussion on SECURE Act 2.0
(Approved for 1 CFP® CE)

Agenda



Provide background on SECURE Act 2.0



Review key changes



Discuss planning opportunities for advisors

The Retirement Problem



- 51% of U.S. households are at risk of not being able to maintain their pre-retirement income (2021)¹
- Median total household retirement savings across all workers, approximately \$93,000 (2021)²
- Only 55% of households ages 55-64 have a retirement savings account (2019)³
- By 2050, the retirement income gap in the U.S. is projected to be \$137 trillion. If projections hold, retirees in six major economies (including the U.S.) would outlive their savings by an average of eight to 20 years.⁴

1: https://crr.bc.edu/wp-content/uploads/2021/01/IB_21-2.pdf

2: https://transamericacenter.org/docs/default-source/retirement-survey-of-workers/tcrs2021_pr_four-generations-living-in-a-pandemic.pdf

3: <https://www.federalreserve.gov/publications/report-economic-well-being-us-households.htm>

4: <https://www.usbank.com/retirement-planning/financial-perspectives/saving-for-retirement-secure-act.html#1>

SECURE Act 2.0 Overview



Background SECURE Act 2.0

- SECURE 2.0 builds on significant 2019 legislation that affected how Americans save for retirement
- Securing a Strong Retirement Act (SSRA) passed the House - March 2022
- SECURE 2.0 included in the Consolidated Appropriations Act - December 20th, 2022
- Senate passes bill including SECURE 2.0 - December 22nd, 2022
- House passes bill including SECURE 2.0 - December 23rd, 2022
- President Joe Biden signs SECURE 2.0 - December 29th, 2022



Key Provisions in SECURE 2.0

- New catch-up contribution opportunities
- Roth-associated provisions
- Delayed Required Minimum Distribution (RMD) start age
- Penalty-free early withdrawals from workplace savings plan
- Enhanced 529 account transferability
- Additional miscellaneous provisions

Sources:

<https://www.kitces.com/blog/secure-act-2-omnibus-2022-hr-2954-rmd-75-529-roth-rollover-increase-qcd-student-loan-match/>

https://www.finance.senate.gov/imo/media/doc/Secure%202.0_Section%20by%20Section%20Summary%2012-19-22%20FINAL.pdf



Increased Catch-Up Contributions (Section 108 & 109)

- In 2024 IRA catch-up will be indexed for inflation
- In 2025, catch-up limit increases for 401(k) plan participants aged 60-63
 - **Greater of \$10,000 or \$150%** of catch-up contribution (indexed for inflation)
- In 2025, catch-up limit increases for SIMPLE plan participants aged 60-63
 - **Greater of \$5,000 or 150%** of catch-up contribution (indexed for inflation)
- Section 604: High Wage Earner (\$145,000 indexed for inflation) catch-up provisions are made to Roth



Increased Catch-Up Contributions

Further Clarification

- Joint Committee of Taxation acknowledges a drafting error in Section 603
 - On Aug. 25, 2023, IRS announced a 2-year transition period for the required Roth catch-up contributions for high earners age 50 or over*
 - IRS also clarified that plan participants aged 50 or older can make catch-up contributions after 2023
- Further clarification may be necessary due to 401(k) catch-up contribution language.
 - Ex. The "greater of \$10,000 or 150% of the future (regular) catch-up amount"
 - In 2023, 150% of the catch-up amount is \$10,000: $1.5 \times \$7,500 = \$11,250$



Roth Associated Provisions



Changes Related to Roth

- Creation of SIMPLE Roth IRA's and SEP Roth IRA's
- Elimination of Roth Plan Account Required Minimum Distributions (RMD's) starting in 2024
- Employer Contributions are permitted in Roth Accounts
- High Wage Earners (over \$145,000 in the previous year) are required to make catch-up contributions to Roth starting in 2026
 - Can elect to make Roth catch up contributions in the meantime



Required Minimum Distributions (RMD's) to start as late as Age 75

	Current Law	SECURE Act 2.0
RMD starting age	72	As late as 75

SECURE 2.0 RMD Age Schedule

Birth Year	First RMD AGE
(Client that turned 70.5 before 2020)	70.5
1950 or before	72
1951-1959	73
1960 or later	75

Impact on Inherited Spousal IRA's

- Starting in 2024, spousal beneficiaries can elect to be treated as the deceased spouse after inheriting a retirement account
 - RMDs can be delayed until the deceased spouse RMD age
 - Once the decedent reaches RMD age, distributions will be based on Uniform Lifetime Table vs Single Lifetime Table
 - If the surviving spouse dies before RMD's begin, the spousal beneficiaries are treated as the original (spousal) beneficiary



Penalty-Free Withdrawals from Workplace Savings Plan

Penalty Free Distributions	Details
Age 50 Public Safety Worker Exception Expansion	<ul style="list-style-type: none"> -Includes Private Sector Firefighters -Includes State and Local Corrections /Forensic Officers -Includes plan participants who separate service before age 50 BUT have performed 25 consecutive years of service
Exception for Victims of Domestic Abuse	Starting in 2024 the lesser of \$10,000 or 50% of vested balance in Defined contributions plan can be distributed within 1 year
Exception for Terminal Illness	Allows distributions for those who “been certified by a physician as having an illness or physical condition which can cause reasonable death in 84 months (vs 24 months) or less”.
Qualified Disaster Recovery Distributions	Allows a maximum of \$22,000 to distribute within 180 days of Federally declared disaster.
Emergency Withdrawal Exception	Starting in 2024 “unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses” permits \$1,000 distribution/year.

Proposed RMD Penalty Adjustment

- Failure to participate in RMD's currently results in excise tax equal to 50% of Required Minimum Distribution.
- SECURE 2.0 reduces to penalty: 25% of Required Minimum Distribution
 - If the shortfall is corrected within a specific window of time, the penalty drops to 10%
- More flexibility with RMD's can empower clients to hit savings goals and leverage tax-efficient distributions.



Qualified Charitable Distribution (QCD) Update

- Since being introduced over 15 years ago, the maximum distribution amount (\$100,000) has not changed.
- Beginning in 2024, the maximum QCD amount (\$100,000) will be indexed for inflation.
- Beginning in 2023 QCD's can be used to fund a split interest entity (\$50,000 maximum).
- QCD eligibility age remains at 70.5.



Enhanced 529 Account Transferability

- Section 126: Starting in 2024, the ability to transfer up to \$35,000 from a 529 plan to a Roth IRA
 - Roth IRA must be in the name of the *beneficiary* of the 529 plan
 - The 529 plan must have been maintained for 15 years or longer
 - Any contributions to the 529 plan within the last 5 years & earnings on those contributions are ineligible to be moved to a Roth IRA
 - The annual limit for how much can be moved from a 529 plan to a Roth IRA is the IRA contribution limit for the year, *less any 'regular' traditional IRA or Roth IRA contributions that are made for the year*
 - A maximum of \$35,000 can be moved from a 529 plan to a Roth IRA during an individual's lifetime



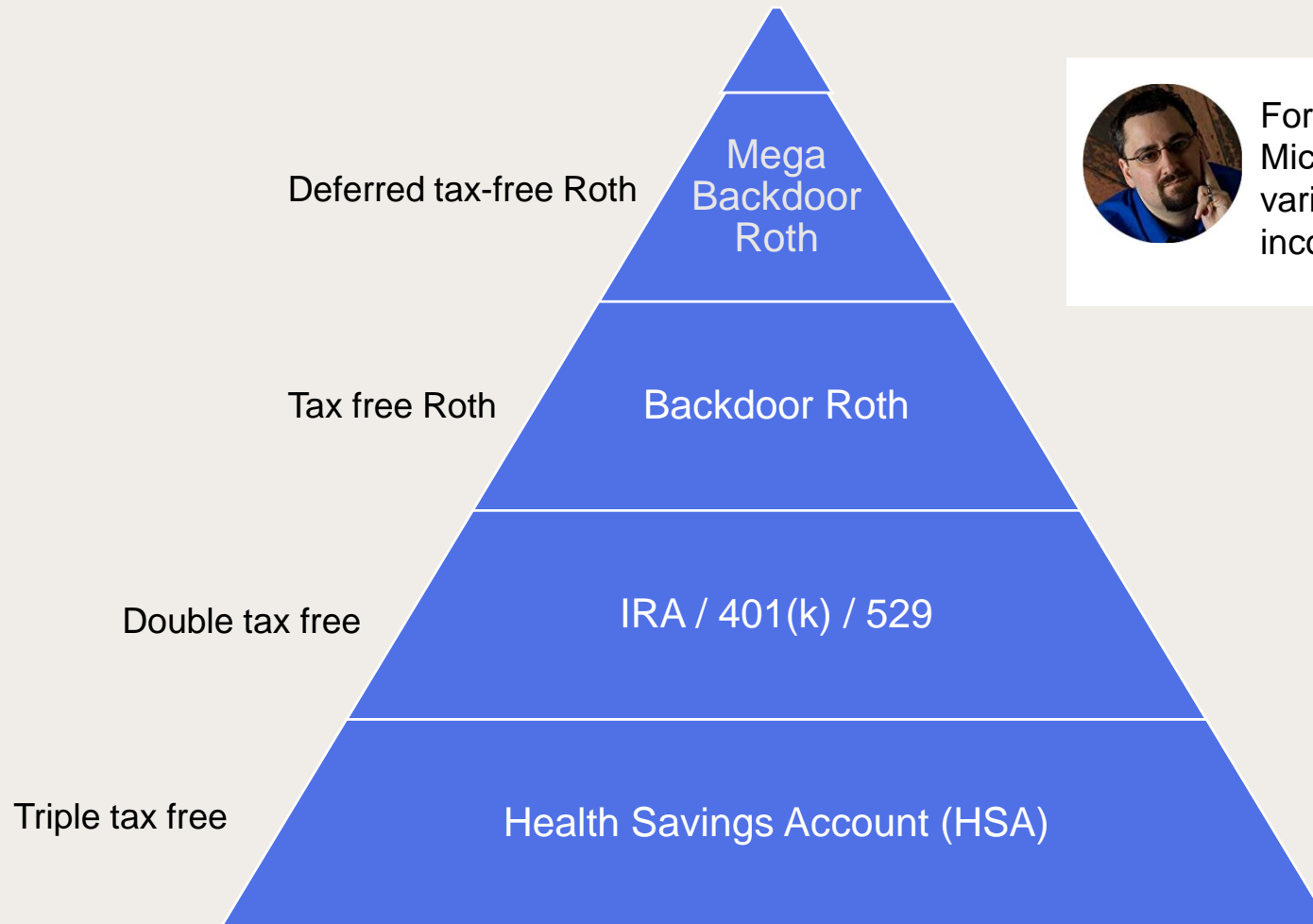
Improved Access to Workplace Retirement Plans

	Current Law	SECURE Act 2.0
Part-Time 401(k) eligibility	Eligible if you work 500-900 hours for three consecutive years	Eligible if you work 500-900 hours for two consecutive years
Auto Enrollment in 401(k) plans	Employer have the option to initiate auto enrollment, employees can opt out.	Employers required to provide auto enrollment & increase to new 401(k) and 403(b) plans, employees can opt out.
Student Loan / Retirement Savings Match	-	Employers allowed to match student loan payments with workplace retirement plan contributions

Financial Planning Opportunities



Enhanced Tax-Smart Savings Strategy



For additional info, refer to Michael Kitces' summary of various savings options for high-income clients ➡ [article link](#)

Case Study: Samantha

Client: Samantha

Age – 50

Retirement Age – 64

Income- \$200,000

Max Pre-Tax 401(k) Contribution – \$30,000

Taxable Savings- \$10,000/year

Invested Assets- Qualified: \$500,000

Non-Qualified: \$250,000

Expenses \$6,200 / Month

SECURE 2.0

After-Tax 401(k) limit Savings \$10,000 (age 60-63)



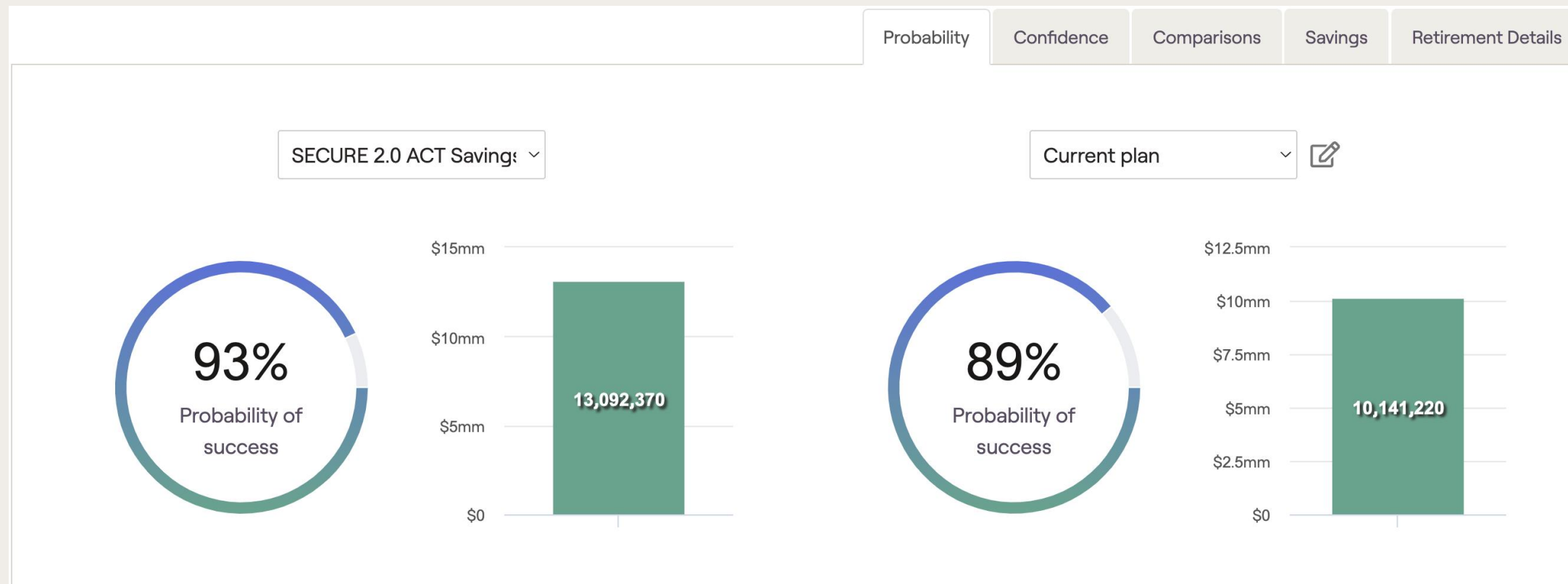
Example Tax-Smart Savings

Annual savings	Current strategy	SECURE 2.0 Catch-up Provision
Pre-Tax 401(k)	\$30,000	\$30,000
Taxable account	\$10,000	\$10,000
Additional Catch-up 60-63		\$10,000 (age 60-63)
Total savings	\$40,000	\$50,000

Example Tax-Smart Savings



Example Tax-Smart Savings

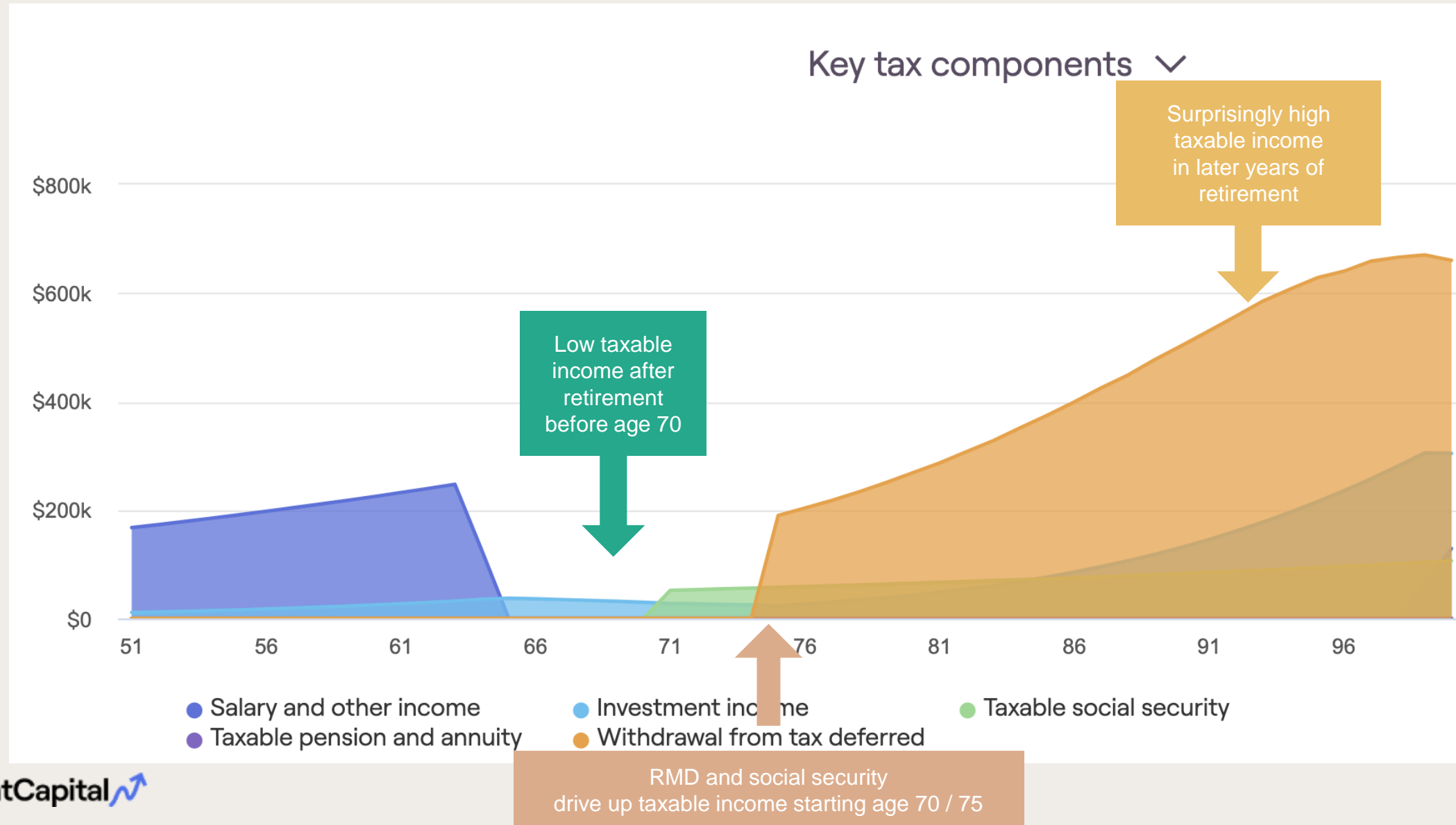


Tax-Preferred Savings and Tax-Efficient Distribution

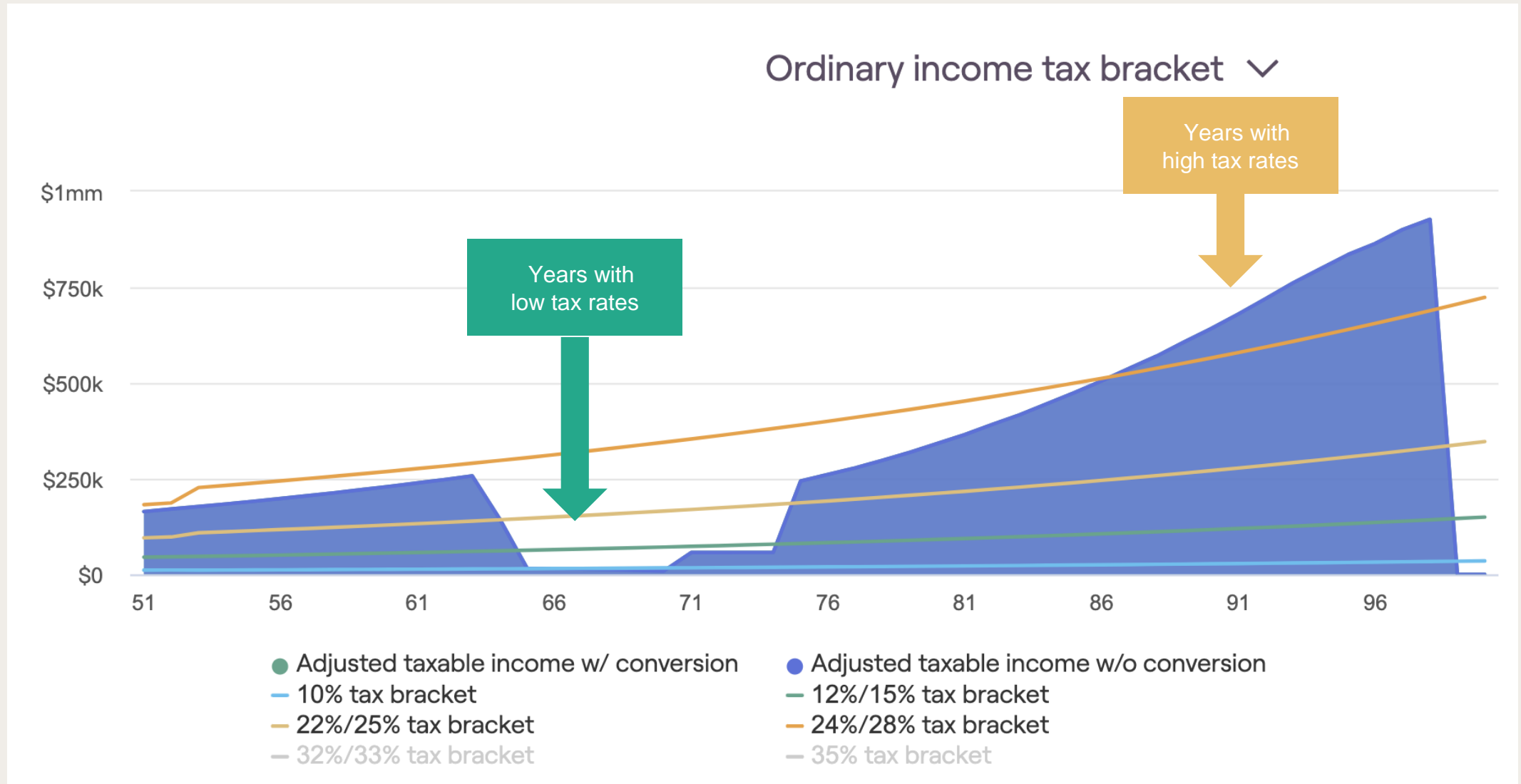
- Clients may be better off saving to tax-deferred 401(k) now and converting to Roth accounts in the future
- Especially if clients delay Social Security to 70, there may be additional partial Roth conversion opportunities before age 75 before both Social Security & RMD's have begun.
- Use a tax-efficient sequence of withdrawals in conjunction with Roth conversions to maximize value



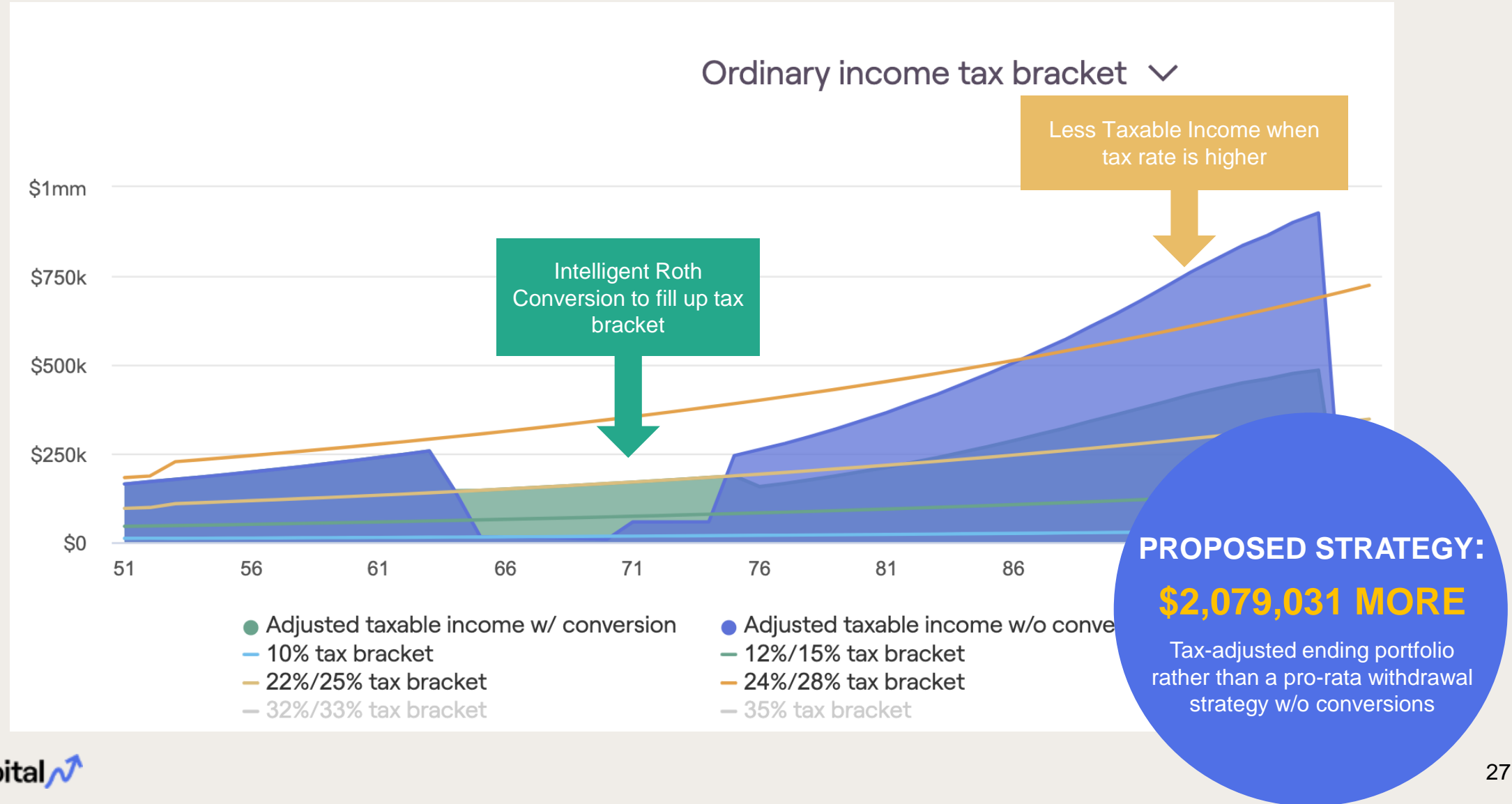
Tax brackets during retirement can be surprising



Large IRA distributions drive up tax brackets



Large IRA distributions drive up tax brackets



Combining Tax-Smart Savings & Tax-Efficient Distributions



Combining Savings and Distribution



Tax smart saving strategy: **+\$3,421,810 invested assets**



Tax smart distribution strategy: **+\$2,079,031 invested assets**



Combined benefit **+5,500,841 invested assets**

SECURE ACT 2.0

RightCapital Implementation

Penalty Free Withdrawals



Delayed Required Minimum Distribution Start Age



Additional Catch-Up Provisions (Age 60-63)



Eliminated Roth 401(k) RMD



Qualified Charitable Distributions indexed for inflation



Roth SEP & Roth SIMPLE accounts and savings



Employer Match to Roth in Employer Sponsored Retirement Plans



Takeaways



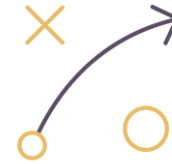
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