Lafayette Life Insurance Company

A member of Western & Southern Financial Group

ADVANCED MARKETS MATTERS

SECURE Scope

Get to Know SECURE 2.0 (Part II)

SECURE 2.0 became law on December 29, 2022. SECURE Scope (Part I) surveyed certain changes taking effect in 2023. Part II now highlights certain changes taking place in 2024 and beyond.

2024

Catch-Up Contributions

- The $1,000 IRA catch-up contribution limit for taxpayers age 50 or over will be indexed for tax years beginning after 2023.
- Catch-up contributions for employees with wages from the employer sponsoring the plan that exceeded $145,000 (as indexed after 2024) in the previous year must be made as Roth contributions for tax years beginning after 2023. This does not apply to SIMPLE plans and appears not to include those with self-employment income. If a Roth designated account is not available in the plan, all employees are prohibited from making catch-up contributions.

Matching Contributions

- Employers will be able to provide matching contributions to a 401(k), 403(b) or 457(b) governmental plan or SIMPLE IRA on behalf of any employee making a qualified student loan payment, subject to the elective deferral limit and the employee's certification that the payment has been made, effective for plan years beginning after 2023.

Not-So-SIMPLE SIMPLE Plans

- Effective for tax years beginning after 2023, employers may make additional nonelective contributions (in excess of current matching/nonelective contribution limits) of up to 10% of compensation but not to exceed $5,000 (indexed for inflation beginning after 2023).
- Effective for tax years beginning after 2023, the annual elective deferral and catch-up limits for SIMPLE plans is increased by 10% for SIMPLE plans sponsored by employers with 25 or fewer employees. These higher limits may apply to SIMPLE plans sponsored by employers with 26-100 employees only if the employer increases its matching contribution to 4% or its nonelective contribution to 3%.

529 Plan-to-Roth IRAs Transfers

- Certain distributions after 2023 from Section 529 plans that have been maintained for more than 15 years may be transferred tax- and penalty-free in a direct trustee-to-trustee transfer to a Roth IRA for the benefit of the beneficiary of the 529 plan. Only contributions and earnings on such contributions made more than five years earlier are eligible. Transfers are subject to the Roth IRA annual contribution limits (minus other traditional or Roth contributions) and are subject to a $35,000 lifetime limit. The Roth IRA income limitation does not apply, but the beneficiary must have the requisite compensation. This provision is intended to address parents' concerns over what happens if their children cannot use the funds for qualified education expenses.

RMDs

- Lifetime RMDs from 401(k), 403(b) or 457(b) designated Roth accounts will not be required for tax years beginning after 2023. This rule has always applied to Roth IRAs.
- A new option is available for surviving spouses beginning after 2023. The surviving spouse may elect to be treated as the deceased employee/IRA owner. While surviving spouses could always delay RMDs until the deceased spouse reached RMD age, this election will allow surviving spouses who are the sole beneficiary to use the Uniform Table instead of the Single Life Table. In addition, if the surviving spouse dies before distributions begin, beneficiaries of the surviving spouse will be treated as the original beneficiaries of the employee/IRA owner and not as successor beneficiaries. This election should be of interest if the deceased spouse was younger.

10% Early Distribution Penalty

- Certain distributions made after 2023 to (self-certified) domestic abuse victims from IRAs and employer plans will not be subject to the 10% early distribution penalty. Distributions must be taken within one-year of the domestic abuse, are limited to the lesser of $10,000 or 50% of the vested account balance and may be repaid within three years. The $10,000 will be indexed for inflation after 2024.
- The substantially-equal-periodic-payment exception will continue to apply in the case of transfers, rollovers, and exchanges after 2023 as long as the amount of the payments remain the same (whether from one or more accounts).
- Two additional exceptions to the 10% early distribution penalty regarding emergency needs are effective generally beginning in 2024:
  - For an emergency personal expense distribution (limited to $1,000 each year but limited to one every three years unless repaid or aggregate elective deferrals and employee contributions equal or exceed the amount of the distribution)
  - For distributions from an emergency savings account (ESA) offered by 401(k) or other individual account plan to non-highly compensated employees (contributions to these designated Roth ESAs cannot exceed $2,500, indexed for tax years beginning after 2024)

Additional Provisions Still to Come

- 2025 – Higher catch-up contributions at age 60, 61, 62 and 63
- 2026 – Penalty-free distributions from qualified plans to pay long-term care premiums
- 2027 – Saver's credit replaced with a saver's match for contributions to certain plans

Coming Soon: Context, strategies and opportunities under SECURE 2.0.