# Fairhaven Whitepaper

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# SECURE 2.0: Retirement Focus

***The new law might have something for everyone.***

On December 29, 2022, President Biden signed into law the **Consolidated Appropriations Act of 2023.** This $1.7 trillion spending bill contains the **SECURE 2.0 Act of 2022** (the "Act"). Key highlights of the Act include:

- The age to commence Required Minimum Distributions (RMDs) increases to age 73 in 2023 and to 75 in 2033.
- Penalties for failing to properly take an RMD will decrease from 50% to 25% of the RMD amount, and 10% if corrected in a timely manner for IRAs.
- Beginning in 2024, RMDs will no longer be required from Roth accounts in employer retirement plans. NOTE: Backdoor Roth conversions remain allowed.
- Catch-up contributions will increase

Now that the SECURE 2.0 Act is law, the slate of changes contained therein could help strengthen the retirement system—and Americans' financial preparedness for retirement.

While SECURE 2.0 contains dozens of provisions, the highlights revolve around retirement strategy changes both for individuals and employers. Additional provisions address balancing saving and investing while paying off student debt, making it easier to move accounts from employer to employer, and allowing individuals to save for emergencies within retirement accounts. Here are 8 things Secure 2.0 changes:

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## Individual Retirement Accounts (IRAs) & employer plans

### *Big changes to required minimum distributions (RMDs)*

Currently, investors have to start taking RMDs at age 72. The dollar amount required to be withdrawn is determined by a combination of account values and expected longevity as determined by our friends at the Internal Revenue Service.

The new law raises the RMD beginning age in two tranches. Starting in 2023 the beginning age is increased to 73. Then in 2033 the beginning age is increased to 75. In other words, if you turn 73 in 2023 you must take your inaugural RMD no later than April 1, 2024 (no, this is not an early April Fool's joke). Subsequent distributions would need to be made by December 31st of that year.

If you turned 72 in 2022 or earlier, you will need to continue taking RMDs as scheduled. If you're turning 72 in 2023 and have already scheduled your withdrawal, you may want to consider updating your withdrawal plan.

NOTE: should you delay your first RMD until early 2024 you would need to take two RMDs next year – your first in April to satisfy your 2023 RMD and then another by the end of 2024 to satisfy your 2024 RMD."

## IRAs Only

### *Qualified Charitable Distributions (QCDs)*

Beginning in 2023, people who are age 70½ and older may elect as part of their QCD limit a one-time gift up to $50,000, adjusted annually for inflation, to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity. This is an expansion of the type of charity, or charities, that can receive a QCD. This amount counts toward the annual RMD, if applicable. Note, for gifts to count, they must come directly from your IRA by the end of the calendar year. QCDs cannot be made to all charities.

## Employer plans only

### *Increased catch-up limits at age 60, 61, 62, and 63*

Increases age based catch-up limits to the greater of $10,000 or 50% more than the regular age 50 catch-up amount in 2025 (as indexed for inflation) for participants who have reached ages 60, 61, 62 and 63 (leave it to the government to keep things simple).

- **Effective date:** Calendar years beginning after December 31, 2024
- **Applicable plans:** 401(k), 403(b), and governmental 457(b) but cannot be used in addition to 457(b) special catch-up

### *Newly Established Company Retirement Plans Eligible Automatic Contribution*

New 401(k) and certain 403(b) plans must automatically enroll eligible participants (who do not opt out) using a 3% minimum and 10% maximum contribution rate. Such plans must also provide for an automatic

escalation feature that increases employee contributions by 1% per year up to at least 10% (capped at 15% of compensation). The plan must permit a participant to make withdrawals no later than 90 days after the date of the first contribution. For safe harbor plans, the cap on permissible auto escalation is 15%; for non-safe harbor plans, the cap on permissible auto escalation is 10% prior to 2025; for 2025 and later years, the cap is increased to 15%.

- **Effective date:** Plan years after December 31, 2024
- **Applicable plans:** This provision does not apply to: (1) 401(k) and 403(b) plans that were adopted prior to January 1, 2025; (2) governmental or church plans; (3) SIMPLE 401(k) plans; (4) new businesses (in existence for less than three years); and small employers (normally employs 10 or fewer employees)

### *Student Loan Payments as Elective Deferrals for Purposes of Matching Contributions*

The definition of a matching contribution may include an employer contribution made to an employer plan on behalf of an employee in order to match amounts paid towards their qualified student loan payment.

- **Effective date:** Plan years after December 31, 2023
- **Applicable plans:** 401(k), 403(b) and governmental 457(b) plans and SIMPLE IRAs

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### *Withdrawal for Emergency Personal Expenses*

Plans and traditional IRAs may permit one withdrawal per calendar year up to $1,000 for an unforeseeable or immediate financial need relating to necessary personal or family emergency expenses. This emergency personal expense distribution is exempted from the IRS 10% premature distribution penalty tax that would normally apply to a pre-59 ½ withdrawal. The distribution may be repaid within 3 years and a subsequent distribution cannot be made until the repayment is completed. The plan administrator may rely on a certification by an employee seeking an emergency withdrawal unless the plan administrator has actual knowledge to the contrary.

- **Effective date:** Plan years after December 31, 2023
- **Applicable plans:** 401(a), 401(k), 403(b), governmental 457(b) plans and traditional IRAs

### *Reliance on Employee's Self-Certification of Hardship and Emergency Withdrawals*

A plan administrator may rely on an employee certification that a hardship withdrawal is based upon an immediate and heavy financial need, as described in the Treasury regulations, and that the amount requested is no more than is necessary to satisfy the financial need. Similar rules apply to the administrator of a governmental 457(b) plan with respect to unforeseeable emergency withdrawals.

- **Effective date:** Effective for plan years beginning after the date of enactment
- **Applicable plans:** 401(k) and 403(b) plans (hardship withdrawals); governmental 457(b) plans (unforeseeable emergency withdrawals)

### *Eliminating Unnecessary Plan Requirements Related to Unenrolled Participants*

Provided a participant has received a summary plan description and other documents related to plan eligibility, a plan is not required to provide disclosures or notices to employees who are eligible to participate but have not enrolled in the plan, other than an annual reminder notice of the participant's eligibility to participate in the plan and applicable deadlines as well as any required documents upon a participant's request.

- **Effective date:** Plan years after December 31, 2022
- **Applicable plans:** 401(a), 401(k), 403(b), and 457(b) plans

## 529 Plans + Roth IRAs

### *529 Plans – even more flexibility*

For plans that have been open for at least 15 years, 529 plan assets can be rolled over to a Roth IRA for the beneficiary, subject to annual Roth contribution limits and an aggregate lifetime limit of $35,000. The rollover is treated as a contribution towards the annual Roth IRA contribution limit. All the more important to get started saving for college ASAP.

- **Effective date:** After December 31, 2023 (beginning 2024)

## Conclusions

While SECURE 2.0 provides increased opportunities to save for retirement, everyone's financial goals and circumstances are unique (this legislation is a gajillion pages long so this summary is far from comprehensive). As always, give us a call or stop by the office to better understand how SECURE 2.0 changes might apply to you.

### About Fairhaven

Fairhaven Wealth Management is an independent, privately owned investment and wealth management firm serving select families and small to mid-sized businesses. At Fairhaven, our commitment is simple – we exist to serve our clients...period. Our culture of service and accountability combined with prudent risk management and tax-efficiency are the cornerstones of our client commitment. www.fairhavenwealth.com



**For more information, please contact:**

Fairhaven Team

mhorner@fairhavenw.com

630.990.9000

Fairhaven wealth management



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