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OPINION

Today's Business: The revised SECURE Act and saving for retirement

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There are some important changes to laws impacting retirement planning beginning this year — changes to what is known at the SECURE 2.0 Act (Setting Every Community Up for Retirement Enhancement).

The original law passed by Congress in 2019 offered significant benefits for many Americans planning for retirement. The new law expands benefits and alters rules that may affect retirement savings.

One of the most significant changes is the threshold age at which an individual must begin taking Required Minimum Distributions from a retirement account. The amount is determined by the fair market value of the IRAs at the end of the previous year, factored by age and life expectancy. The revised law raised the age from 72 to 73, giving retirement accounts an extra year to grow before mandated withdrawals are required. On Jan. 1, 2033, the threshold age will rise to 75.

Another key feature is a significant reduction in the penalty for failing to take required withdrawals.

An important provision of the SECURE Act of 2019 was the elimination of the age limit for making traditional IRA contributions. Prior to 2020, individuals could not make contributions to a traditional IRA after age 70 ½. Now, individuals of any age can contribute as long as they have earned income. If you are still working at age 70 ½ — and can afford to continue to set funds aside for eventual retirement — it is certainly a good idea to keep funding that IRA.

A major change is the provision now allowing employers to automatically enroll eligible employees into company 401(k) retirement savings plans with a contribution rate of up to 15 percent of the individual's salary. The previous limit was 10 percent of salary. This change is to encourage employees to save more for retirement — and not simply rely on Social Security, rarely sufficient to provide needed income in retirement.

There also is an important change in the law relating to part-time workers.

The law now allows long-term, part-time employees to participate in 401(k) plans. Employees who work at least 500 hours annually for three consecutive years must be allowed to participate in the employer's 401(k) plan. A great boon to those workers, for sure!

There also are changes for families saving and/or paying for their children's college bills.

The law permits funds in 529 college savings plans to be used to pay for qualified education loan repayments of up to $10,000 — an important change geared to benefit families burdened with significant student debt. Beginning in 2024, the

law allows for unused funds, after 15 years, to be rolled into a ROTH IRA for the beneficiary.

Another new benefit for those repaying student loans is a provision enabling employers to “match” the employee’s loan payments with matching payments to a retirement account, giving workers an extra incentive to save while paying off educational loans.

Before 2020 when that act was first implemented, beneficiaries of inherited IRAs could stretch distributions over their lifetimes, allowing for tax-deferred growth over many years. The new law requires most beneficiaries to withdraw all funds from inherited IRAs within 10 years of the original owner's death.

As you might expect, this change is expected to generate significant tax revenue for the federal government over the coming decade.

Overall, SECURE Act 2.0 created significant changes with the potential to impact many Americans' retirement planning. It's important for individuals, families, and small businesses to review retirement plans and make any necessary adjustments to take advantage of these changes. Employers should also review the retirement plans provided employees and make any necessary updates to comply with the new rules. By doing so, everyone can benefit from the increased flexibility and opportunities of the SECURE 2.0 Act.

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