What the SECURE 2.0 Act means for you

You've probably heard about the SECURE 2.0 Act ("the Act"), signed into law on December 29, 2022, but do you know how it may impact you? The Act introduced significant changes to employer-sponsored retirement plans, adding valuable benefits that may help improve retirement outcomes. There are over 90 provisions, however not all of them may impact your plan. Let's take a look at key provisions that could impact you

Long-term, part-time workers may enter the retirement plan sooner

The Act reduces the minimum eligibility requirements for long-term, part-time employees who work between 500 and 999 hours from three consecutive years (set by SECURE 1.0 in 2019) to two years. The two-year eligibility requirement is effective for plan years beginning after December 31, 2024 (the original 3-year provision is still in effect through 2024).

Four changes for Required Minimum Distributions

A Required Minimum Distribution (RMD) is the amount of money that the IRS requires you to withdraw each year from an employer-sponsored retirement plan, traditional individual retirement account (IRA), SEP, or SIMPLE IRA.

1. Age increase

The age at which you need to start taking RMDs is increasing. It increased to 73 beginning January 1, 2023, and then it increases to 75 beginning in 2033. If you turned 72 in 2022, it is important to note that the starting age for RMDs was 72. On the other hand, if you turn 72 in 2023, you will need to wait until you're 73 (in 2024).

The easiest way to determine when to start taking your RMD is by your birth year.

Your RMD starting age	Your birth year
70 ½	If you were born before July 1, 1949
72	Born between July 1, 1949 and December 31, 1950
73	Born between January 1, 1951 and December 31, 1959
75	Born on or after January 1, 1960

If you're working for the same employer that is sponsoring your retirement plan and you don't own more the 5% of the company, you can delay taking your RMD until you retire. If you have other retirement accounts, you may still need to take an RMD.

2. Excise tax reduction

The IRS imposes a penalty if you don't take your RMD by the deadline. Before the Act, the excise tax was 50% of the RMD amount. Beginning with tax years after December 29, 2022, the excise tax is reduced to 25% of the RMD amount, although it may be reduced to 10% if corrected within a two-year window.

For example, if your RMD for the year is $15,000 and you only take $11,000, you could owe a $1,000 penalty plus income tax on the shortfall.

3. Roth RMD rule change

Previously, when your RMD was calculated, your entire account balance was used to calculate the amount you need to withdraw. However, beginning with tax years after December 31, 2023, Roth account balances will be excluded from the calculation. This means that more of your money can stay in the Plan, giving it more time to grow. Use the RMD calculator to help you determine your annual RMD.

RMD includes Roth	RMD excludes Roth
Pretax $50,000	Pretax $50,000
Roth $50,000	Roth $50,000
RMD (both pretax and Roth) $2,421	RMD (exclude Roth) $1,961

For illustrative purposes only, results may vary. Assumes age 74, 6% rate of return, spouse as sole beneficiary and 10 years younger.

Roth contributions are made on an after-tax basis, and withdrawals taken after age 59½ are tax-free and penalty-free provided the account has been maintained for at least five years.[1]

4. Surviving Spouse

When a surviving spouse is the sole beneficiary of their deceased spouse's retirement account, they can elect to delay the RMD payment until the deceased spouse would have reached RMD age had they lived, if later than the surviving spouse's RMD age. RMDs for the surviving spouse will now be calculated using the Uniform Lifetime Table, resulting in a lower RMD amount.

Catch-up contributions

Two changes are coming to catch-up contributions:

1. Beginning January 1, 2025, if you're between the ages of 60 and 63, you can make additional contributions. You can contribute up to the greater of 1) $10,000 or 2) 150% of the regular annual limit. This is good news for those who've delayed or not yet started saving for retirement — this could be a chance to boost your savings! Remember, it's never too late to start saving for retirement.
2. Beginning January 1, 2026, if your FICA wages for the prior year, with the employer sponsoring your retirement plan, are $145,000 or greater, your catch-up contributions can only be made as Roth.

FICA wages can be found on your paystub or in Box 5 of your W-2.

Looking for ways to achieve your retirement goals?

Your retirement plan offers you access to financial tools and educational resources to help you improve your financial knowledge. Access the ADP Achieve Engagement Hub or scan the QR code from your camera or QR code reader.

1 A qualified distribution is a distribution from your Roth 401(k) Account that occurs at least 5 years after you made your first Roth 401(k) contribution to the plan, AND after you attain at least age 59½ (or upon your disability or death).

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