McCarthy Asset Management, Inc.

Personalized Wealth Management

SECURE ACT 2.0– THE NEW LAW OF THE LAND

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STEVE McCARTHY
CPA, CFP®,
Owner and Principal
650 610-9540 x 303
steve@mamportfolios.com

"In this White Paper we discuss some of the key provisions outlined in the retirement savings package known as SECURE Act 2.0."

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.

In one of its final acts of 2022, Congress approved a massive year-end spending bill that included the long-anticipated retirement savings package known as SECURE Act 2.0. The retirement provisions of the new law, which took several months of negotiations between House and Senate leaders, combines three different retirement-focused bills and held bipartisan support across both the House and Senate. It builds on the SECURE Act, which was approved by Congress in 2019.

The purpose of SECURE Act 2.0 is to expand retirement savings for workers. Congress recognizes that too many workers reach retirement age with insufficient retirement savings. Many of the provisions of the new law contain methods intended to help workers reduce these shortfalls.

Here are some of the key provisions of SECURE Act 2.0:

- The age to start taking required minimum distributions (RMDs) increases to age 73 in 2023 and to 75 in 2033.
- The penalty for failing to take an RMD will decrease to 25% of the RMD amount, from 50% previously, and 10% if corrected in a timely manner for IRAs.
- Catch-up contributions will increase in 2025 for 401(k), 403(b), government plans, and IRA account holders.
- Starting in 2024, RMDs will no longer be required from Roth accounts in employer retirement plans.

Higher Catch-up Contributions: Starting January 1, 2025, individuals ages 60 through 63 years old will be able to make catch-up contributions of up to $10,000 annually to a workplace plan, and that amount will be indexed to inflation. (For 2023, the catch-up amount for people 50 and older is $7,500.)

Roth Provisions: A number of provisions will provide an option to invest in a Roth-type account. Roth-type accounts are an attractive investment option. While contributions don't receive a tax deduction, the entire account, including earnings, are tax-free when withdrawn during retirement. Also, Roth-type accounts are generally exempt from the required minimum distributions rules.

Our Services

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services:

- Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:
    - Tax Return Preparation
    - Income Tax Projections
    - Tax Minimization Ideas
    - Tax Authority Representation

Other Services:

- MAM has retained several outside experts, whose services are available at no cost to our clients:
    - Medicare Planning– Eileen Hamm of Superior LTC Planning Services, Inc.
    - Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.

Roth Catch-Up Contributions for Higher Earners: Beginning with the 2024 taxable year, catch-up contributions must be made to employer-provided qualified plans on a Roth basis (i.e., after-tax) for employees with compensation in excess of $145,000 (indexed for inflation starting in 2025). This new rule does not apply to SEP or SIMPLE plans.

Roth Option for Matching Contributions: Employers offering 401(k), 403(b) and 457(b) plans may provide participants with the option of receiving matching contributions on a Roth basis effective December 29, 2022. While employer matching contributions to traditional plans are not taxable to the employee, they will be taxable if the matching contribution are contributed to a Roth account.

SIMPLE And SEP Roth IRAs:

Under prior law, Roth accounts weren't available for SIMPLE and SEP IRAs. Under Act 2.0, beginning in 2023, SEP IRAs and SIMPLE IRAs can be designated as Roth SEP IRAs or Roth SIMPLE IRAs. Any employer contribution to a Roth SEP or SIMPLE IRA are treated as compensation to employees. Contributions to a traditional SEP or SIMPLE IRA are excluded from the employee's taxable compensation.

529 Plans- Roth IRA Option: An interesting provision is that individuals who have maintained a 529 account for at least 15 years can make a direct trustee-to-trustee rollover from the 529 plan to the beneficiary's Roth IRA, effective for distributions made after December 31, 2023. The exclusion only applies to the amount contributed to the 529 plan (and earnings attributable to) before the five-year period ending on the date of the distribution.

The purpose of this 529 provision is to encourage individuals who might have been concerned about leftover funds being trapped in 529 accounts or be subject to penalties, to continue to make contributions. Rollovers from 529 plans to a taxpayer's Roth IRA will count toward the taxpayer's annual IRA contribution limit (which is $6,500 for 2023). Rollovers from a 529 plan are subject to an aggregate lifetime limit of $35,000 per beneficiary.

Automatic Enrollment: One of the most broadly applicable provisions requires that, effective for plan years beginning after 2023, 401(k) and 403(b) sponsors automatically enroll employees in plans once they become eligible. Under this requirement, the amount at which employees are automatically enrolled cannot be any less than three percent of salary, and no more than ten percent. The amount of employee contributions is increased by one percent every year after automatic enrollment, up to a maximum contribution of ten percent. Employees can opt out of automatic enrollment if they so choose.