BRENNAN & ROGERS PLLC
Informed and compassionate legal care
279 York Street (P. O. Box 467)
York, Maine 03909
(207) 361-4680

Mary Kathryn Brennan, Esq.	ME
Smilie G. Rogers, Esq.	ME, NH & MA
Michael A. Cahill, Esq.	ME
Katherine M. Audet, Esq.	ME & MA

February Newsletter Supplement: Update to the 2019 Setting Every Community Up for Retirement (SECURE) Act

On December 29th, 2022, the Consolidated Appropriations Act of 2023 (the "Act") was enacted. The Act includes changes and improvements to the 2019 Setting Every Community Up for Retirement (SECURE) Act. These provisions, known as SECURE 2.0, predominantly affect retirement savings plans. It is important to note that the effective dates vary, with some measures effective immediately while others become effective in later years.

The United States Senate Committee on Finance has published a helpful summary of SECURE 2.0. The new provisions could impact how you save for retirement and withdraw money from your retirement accounts. Notable highlights include:

1. <u>Age for Required Minimum Distributions (RMDs)</u>

The age at which an individual must begin taking RMDs increases from 72 to 73. An individual can choose to delay taking their first RMD until April 1st of the year following the year in which they reach age 73.

Effective Date: January 1st, 2023

SECURE 2.0 provides an additional age increase to age 75, which will affect individuals born on January 1st, 1960, or later.

Effective Date: January 1st, 2033.

Please use the chart to help you determine when you need to bring taking RMDs.

Birthday	Starting Age	Rule
June 30th, 1949, or earlier	70 ½	RMDs should have already started at age 70 ½, and RMD requirements aren't affected by SECURE and SECURE 2.0
July 1st, 1949, through December 31st, 1950	72	RMDs should have already started at age 72, and RMD requirements aren't affected by SECURE 2.0
January 1st, 1951 through December 31st, 1959	73	RMDs for individuals born in 1951 will begin next year in 2024 when those individuals reach age 73.
January 1st, 1960, or later	75	RMDs will begin at age 75

2. RMD Tax Penalties

The IRS assesses a tax penalty on those who fail to withdraw the full amount of the RMD or those who fail to take a distribution by the annual deadline, even if the failure is made by oversight or mistake. SECURE 2.0 reduces the penalty from 50% to 25% of the RMD amount that was not withdrawn. This penalty can be further reduced to 10% if the mistake is corrected in a timely manner.

Effective Date: January 1st, 2023

3. Catch-Up Contributions

Catch-up contributions allow people ages 50 and older to contribute additional amounts over the standard maximum. This additional amount is set to $1,000 per year and is not indexed for inflation. SECURE 2.0 provides for inflation adjustments, so we will see this amount increase each year.

Effective Date: January 1st, 2024

4. Additional Catch-Up Contributions

Additional catch-up contributions will be allowed for individuals ages 60-63 of up to the greater of $10,000 or 50% more than the regular catch-up contribution amount.

Effective Date: January 1st, 2025

5. ABLE Account Age Requirement

Achieving a Better Life Experience (ABLE) accounts allow beneficiaries with qualifying disabilities to save money in a tax-advantaged account that can be used for eligible expenses, such as housing, education, and basic living expenses. Prior to SECURE 2.0, the age of onset of the qualifying disability must have occurred at age 26 or younger. With SECURE 2.0, the age of onset is increased to 46.

Effective Date: January 1st, 2026

6. 529 Accounts

A 529 plan is a tax-advantaged account that offers tax benefits when used to pay for qualified education expenses for a beneficiary. Withdrawals from these accounts are tax-free as long as the withdrawals are used for qualified education expenses. Issues can arise when the beneficiary’s education expenses end up being less than the amount contained in the 529 account. Any non-qualified withdrawals may be subject to federal and state income taxes and a 10% early withdrawal penalty. Beneficiaries will be allowed to roll over up to $35,000 over their lifetime to their Roth IRA. Normal annual Roth IRA contribution limits will apply, with the amount currently set at $6,500 for 2023. In order to be eligible for the rollover, the 529 account must have been open for at least 15 years.

Effective Date: January 1st, 2024

7. Long Term Care Insurance

Retirement plans can distribute up to $2,500 per year for the payment of premiums for certain specified long-term care insurance contracts-those that provide "high quality coverage". These withdrawals will be exempt from the additional 10% penalty on early distributions, though it is not quite clear what types of contracts will qualify, as the term "high quality coverage" is yet to be defined.

Effective Date: December 29th, 2025

8. Special Needs Trusts and Charitable Organizations

SECURE 2.0 clarifies that a special needs trust may name a charity as a remainder beneficiary without destroying the favorable distribution provisions for eligible designated beneficiaries, such as the disabled child of a retirement plan owner. Under the initial SECURE Act, a charity would not qualify as a designated beneficiary, and naming a charity as a remainder beneficiary would have eliminated the ability for the trust to stretch distributions out over the eligible designated beneficiary's life expectancy. SECURE 2.0 changes these rules and allows charities to qualify as designated beneficiaries, thus allowing a stretch payment using the special needs beneficiary's life expectancy.

Effective Date: January 1st, 2023

There are many other provisions in SECURE 2.0 that could impact you. For more details, please visit the Senate Finance Committee's summary at Secure 2.0_Section by Section Summary 12-19-22 FINAL.pdf (senate.gov).