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COMMENTARY

SECURE 2.0 Act Impact: Some Changes in 2024

In this article, we highlight some of the SECURE 2.0 changes, many of which have gone into effect for the first time this year.

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By Amy Neifeld Shkedy and Rebecca Rosenberger Smolen | May 29, 2024 at 10:49 AM

The SECURE 2.0 Act, which was signed into law on Dec. 29, 2022, was designed to expand and simplify the benefits of saving for retirement and expand the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019. In this article, we highlight some of the SECURE 2.0 changes, many of which have gone into effect for the first time this year.

529 plan to Roth IRA rollovers—Beginning in 2024, funds from a 529 plan can be transferred to a Roth IRA, tax free, for the beneficiary of the 529 plan, subject to certain limitations. The 529 plan must have been open for at least 15 years and the eligible rollover amount must have been in the 529 account for at least five years. The rollovers are subject to the annual Roth IRA contribution limit (in 2024 this limit is $7,000, plus an additional $1,000 for taxpayers who are age 50 and older). The 529 rollover is subject to a lifetime cumulative maximum of $35,000 of transfers from a 529 plan account to a Roth IRA. This rollover option is significant as it allows for a portion (and sometimes all) of a taxpayer's surplus 529 plan account balances which are not needed for educational expenses to be applied to retirement savings without subjecting these funds to ordinary income taxes or the 10% penalty, as might otherwise be the case.

Roth 401(k)s and Roth 403(b)s are no longer subject to RMDs during the participant's lifetime. Distributions from Roth 401k or Roth 403(b) are no longer required in the year a participant reaches the age of 73. Beginning in 2024, the minimum distribution rules for Roth 401(k)s and 403(b)s are the same as for Roth IRAs, extending the pre-death RMD exemption to these Roth qualified retirement plan benefits.

Qualified charitable distribution. A qualified charitable distribution (QCD) is a withdrawal from an IRA that is distributed directly to charity and is excluded from taxable income. Individuals who are 70 ½ or older can start donating funds directly from their IRA, 401(k), or other qualified retirement plan to qualifying charities. In 2024, the QCD limit is $105,000, which is an increase from the previous $100,000 cap (which had been in place since the inception of the QCD opportunity). In addition, before last year QCD gifts could only be made to qualifying charities, but starting in 2024 a one-time transfer of up to $53,000 (a $3,000 increase from 2023) may be made to a charitable remainder trust or an immediate charitable gift annuity.

Student Loan "matching" for retirement plans—Starting in 2024, employers can "match" contributions for qualified student loan payments to 401(k), 403(b), or SIMPLE IRA plans. This makes it easier for taxpayers with student loans to be able to pay off their loans while also saving for retirement, without having to choose one over the other.

Penalty-free withdrawal for emergencies. Beginning in 2024, individuals can withdraw, penalty-free, up to $1,000 annually from their retirement savings for personal or family emergency expenses.

Domestic abuse victims withdrawal. Effective Jan. 1, 2024, domestic abuse victims under age 59 ½ can take up to $10,000 from their IRAs or 401(k)s without paying the 10% penalty tax.

Emergency workplace accounts. Beginning in 2024, employers will be able to offer automatic enrollment in an emergency savings account for participants, who could make after-tax Roth contributions to that savings account within the plan, with the account balance not to exceed $2,500. This type of account is known as a "pension-linked emergency savings account" (PLESA) and can only be offered to employee-participants who are not highly compensated. A participant can make withdrawals from his or her account at least once per month for any reason (they do not need to prove an emergency to make a withdrawal).

Surviving spouse election to be treated as an employee. Beginning in 2024, the SECURE 2.0 allows a spouse beneficiary to elect to be treated as the "employee" for RMD purposes. Before this, the spouse had two options—they could either rollover the IRA into their own or could remain as a beneficiary by taking it in an inherited IRA (for younger spouses, the latter option would have the benefit of avoiding a 10% penalty if distributions might be needed before reaching age 59 ½). If the spouse is the employee's sole designated beneficiary and RMDs have not yet begun, the distribution period after the participant's year of death is determined under the uniform life table, allowing the spouse to choose to defer RMDs until the year in which that spouse attains RMD age. With this election, if an employee died before being required to take RMDs, the surviving spouse can delay the start of RMDs until the deceased employee would have reached the RMD age or until the surviving spouse reaches the appropriate RMD age, whichever is more favorable. This change can provide a surviving spouse with an opportunity for more tax-deferred growth over a longer period of time.

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