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SECURE 2.0 Provides New Retirement Savings Options in 2024

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The SECURE 2.0 Act, passed in December 2022, made wide-ranging changes to U.S. tax laws related to retirement savings. While some provisions were effective in 2023, others did not take effect until 2024. Here is an overview of some important changes for this year.

Matching student loan payments

Employees who make student loan repayments may receive matching employer contributions to a workplace retirement plan as if the repayments were employee contributions to the plan. This applies to 401(k), 403(b), and government 457(b) plans and SIMPLE IRAs. Employers are not required to make matching contributions in any situation, but this provision allows them to offer student loan repayment matching as an additional benefit to help address the fact that people paying off student loans may struggle to save for retirement.

New early withdrawal exceptions

Withdrawals before age 59½ from tax-deferred accounts, such as IRAs and 401(k) plans, may be subject to a 10% early distribution penalty on top of ordinary income tax. There is a long list of exceptions to this penalty, including two new ones for 2024.

Emergency expenses — one penalty-free distribution of up to $1,000 is allowed in a calendar year for personal or family emergency expenses; no further emergency distributions are allowed during a three-year period unless funds are repaid or new contributions are made that are at least equal to the withdrawal.

Domestic abuse — a penalty-free withdrawal equal to the lesser of $10,000 (indexed for inflation) or 50% of the account value is allowed for an account holder who certifies that he or she has been the victim of domestic abuse during the preceding one-year period.

Emergency savings accounts

Employers can create an emergency savings account linked to a workplace retirement plan for non-highly compensated employees. Employee contributions are after-tax and can be no more than 3% of salary, up to an account cap of $2,500 (or lower as set by the employer). Employers can match contributions up to the cap, but any matching funds go into the employee's workplace retirement account.

Clarification for RMD ages

SECURE 2.0 raised the initial age for required minimum distributions (RMDs) from traditional IRAs and most workplace plans from 72 to 73 beginning in 2023 and 75 beginning in 2033. However, the language of the law was confusing. Congress has clarified that age 73 initial RMDs apply to those born from 1951 to 1959, and age 75 applies to those born in 1960 or later. This clarification will be made official in a law correcting a number of technical errors, expected to be passed in early 2024.

No more RMDs from Roth workplace accounts

Under previous law, RMDs did not apply to original owners of Roth IRAs, but they were required from designated Roth accounts in workplace retirement plans. This requirement is eliminated beginning in 2024.

Transfers from a 529 college savings account to a Roth IRA

Beneficiaries of 529 college savings accounts are sometimes "stuck" with excess funds that they did not use for qualified education expenses. Beginning in 2024, a beneficiary can execute a direct trustee-to-trustee transfer from any 529 account in the beneficiary's name to a Roth IRA, up to a lifetime limit of $35,000. The 529 account must have been open for more than 15 years. These transfers are subject to Roth IRA annual contribution limits, so it would require multiple transfers to use the $35,000 limit.

Increased limits for SIMPLE plans

Employers with SIMPLE IRA or SIMPLE 401(k) plans can now make additional nonelective contributions up to the lesser of $5,000 or 10% of an employee's compensation, provided the contributions are made to each eligible employee in a uniform manner. The limits for elective deferrals and catch-up contributions, which are $16,000 and $3,500 respectively in 2024, may be increased an additional 10% for a plan offered by an employer with no more than 25 employees. An employer with 26 to 100 employees may allow higher limits as long as it provides either a 4% match or a 3% nonelective contribution.

Inflation indexing for QCDs

Qualified charitable distributions (QCDs) allow a taxpayer who is age 70½ or older to distribute up to $100,000 annually from a traditional IRA to a qualified public charity. Such a distribution is not taxable and can be used in lieu of all or part of an RMD. Beginning in 2024, the QCD amount is indexed for inflation, and the 2024 limit is $105,000.

SECURE 2.0 created an opportunity (effective 2023) to use up to $50,000 of one year's QCD (i.e., one time only) to fund a charitable gift annuity or charitable remainder trust. This amount is also indexed to inflation beginning in 2024, and the limit is $53,000.

Catch-up contributions: indexing, delay, and correction

Beginning in 2024, the limit for catch-up contributions to an IRA for people ages 50 and older will be indexed to inflation, which could provide additional saving opportunities in future years. However, the limit did not change for 2024 and remains $1,000. (The catch-up contribution limit for 401(k)s and similar employer plans was already indexed and is $7,500 in 2024.)

The SECURE 2.0 Act includes a provision — originally effective in 2024 — requiring that catch-up contributions to workplace plans for employees earning more than $145,000 annually must be made on a Roth basis. In August 2023, the IRS announced a two-year "administrative transition period" that effectively delays this provision until 2026. In the same announcement, the IRS affirmed that catch-up contributions in general will be allowed in 2024, despite a change related to this provision that could be interpreted to disallow such contributions. The error will be corrected in the 2024 technical legislation.