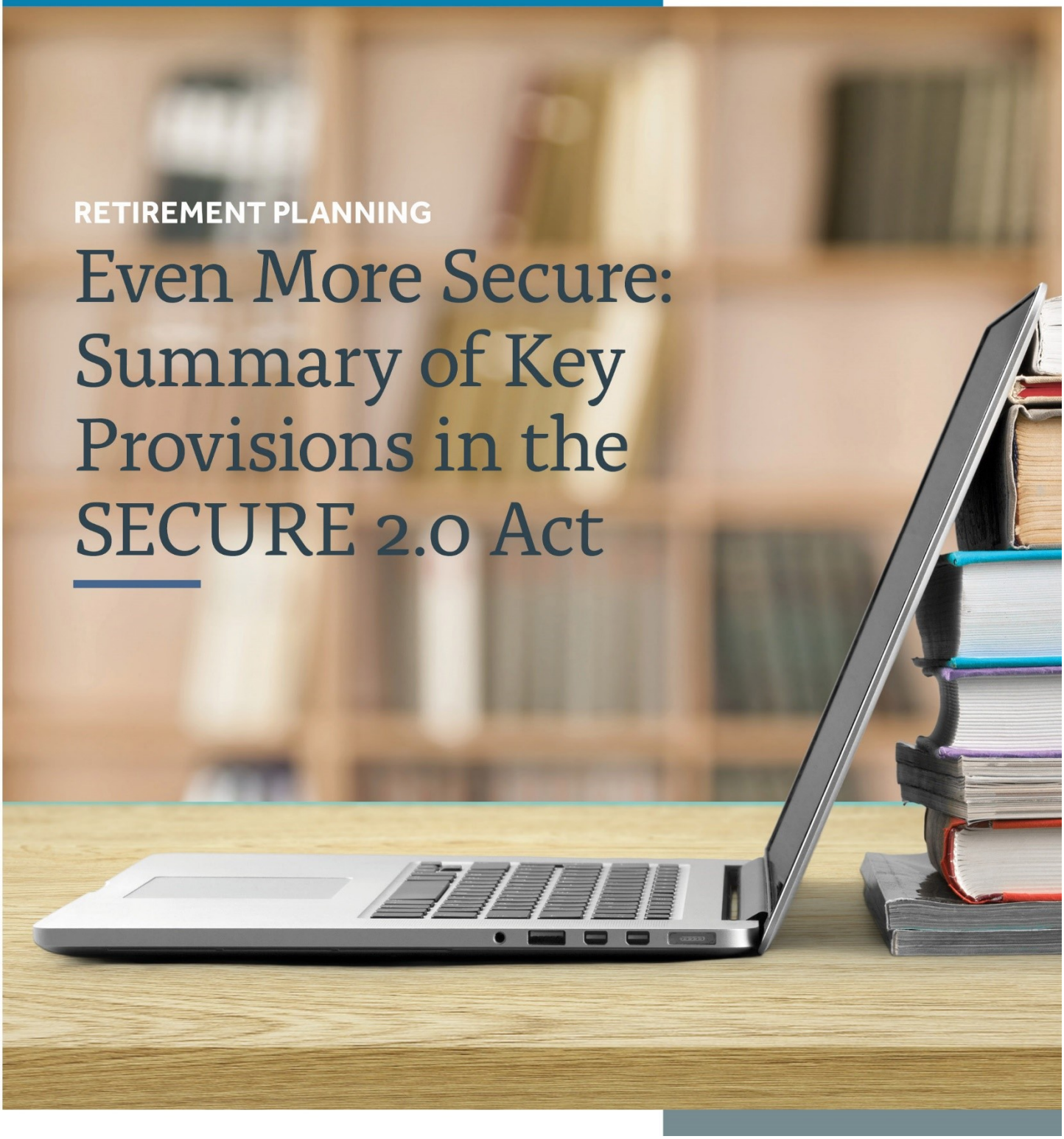
Navigating
Income Tax



RETIREMENT PLANNING

Even More Secure: Summary of Key Provisions in the SECURE 2.0 Act

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Many people struggle to save for retirement and feel they are not on track with their savings. According to a survey by the Federal Reserve, one quarter of the non-retired individuals surveyed had no retirement savings or pension. Of those aged 60 and older, 13% had no retirement savings or pension. Given these sobering statistics, help may be on the way to increase people's readiness for retirement with the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0, commonly called SECURE 2.0, on December 29, 2022. From increasing the time horizon – and thus the opportunity for tax deferral – for required minimum distributions (RMDs) to helping people purchase long-term care contracts using retirement plan distributions, SECURE 2.0 appears to offer something for everyone.

Unlike most legislation emanating out of Washington, both the initial SECURE Act and SECURE 2.0 represent something that both parties can agree on: the need (and importance) for financial security in retirement. This legislation will provide millions of workers the opportunity to build retirement savings through employer-provided retirement plans. The hope is that these new rules will encourage people to save more for retirement.

Automatic enrollment is a proven method for increasing worker participation. Thus, a key feature of SECURE 2.0 is an automatic enrollment provision for new retirement plans that would require employers with 401(k) and 403(b) plans to automatically enroll eligible employees into a company's retirement plans at a savings rate beginning at 3% but not more than 10%, and each year thereafter that amount would be increased by 1% until it reaches at least 10% (but not more than 15%).

All current 401(k) and 403(b) plans are grandfathered. However, employees may opt out at any time or opt to save less or more up to the IRS annual contribution limits. Businesses with fewer than 10 employees, businesses opened less than three years ago (as of the plan's effective date), and retirement plans for employees of churches and government agencies are permanently exempt from this requirement.

In addition to the automatic enrollment provisions above, the legislation also makes changes to employer-sponsored retirement plans by expanding coverage and increasing retirement savings, as well as simplifying and clarifying plan rules. Below is a summary of some of the more significant provisions of SECURE 2.0 that became law with the signing of the legislation (provisions with a delayed future effective date are specifically noted).

Increase in age for required minimum distributions - Section 107

The original SECURE Act raised the age when individuals had to start taking RMDs from traditional retirement plans such as 401(k)s and IRAs from age 70½ to 72. SECURE Act 2.0 increases the RMD age to 73 as of January 1, 2023, and will further increase it to 75 starting January 1, 2033. The increase in RMD ages will provide individuals the opportunity to accumulate several more years of tax-deferred growth on their retirement savings.

Inflation indexing for IRA catch-up contributions and higher catch-up limits for individuals aged 60-63 - Sections 108 and 109

With the passage of SECURE 2.0, all the provisions regarding catch-up contributions are now indexed for inflation (except the $1,000 catch-up contributions for IRAs, which began indexing in 2024). Workers aged 50 and older may make additional contributions of $7,500 to their 401(k)s (after hitting the $23,500 limit in 2025) and an additional contribution of $1,000 to their IRAs (after hitting the $7,000 limit in 2025). For SIMPLE IRAs, workers can add $3,500 ($3,850 for plans with 25 or fewer employees, or that elect this higher limit) above the current limit of $16,500 (in 2025). Starting in 2026, all catch-up contributions for workers earning over $145,000 at age 50 or older must be made to a Roth account in after-tax dollars. Individuals earning $145,000 or less, adjusted for inflation going forward, will be exempt from the Roth requirement.

Effective for taxable years beginning after December 31, 2024, the SECURE Act Section 109 increases the catch-up contribution limit for employees in an eligible plan and who attain ages 60, 61, 62, and 63 by the end of the applicable tax year

to the greater of $10,000 (indexed) or 150% of the regular catch-up contribution limit. The higher catch-up increases the amount of the annual catch-up that can be contributed and is not in addition to the normal age 50 catch-up limit. These increased amounts also will be indexed for inflation for taxable years beginning after 2025

Special rules governing distributions from long-term qualified tuition programs to Roth IRAs - Section 126

After 15 years, 529 plan assets can be transferred to a Roth IRA for the designated beneficiary, subject to annual Roth contribution limits and an aggregate lifetime limit of $35,000. The transfer amount must come from contributions made to the 529 account at least 5 years prior to the 529-to-Roth IRA transfer date. The transfer is treated as a contribution toward the annual Roth IRA contribution limit for the 529 plan beneficiary.

Removes RMD barriers for life annuities - Section 201

Prior to the SECURE 2.0 Act, payments from income annuities purchased with traditional IRA or other qualified assets could satisfy the RMD requirement only for that annuity. This provision removes the actuarial test under the RMD regulations that served as a barrier to the availability of life annuities in qualified retirement plans and IRAs that limited tax deferral opportunities by precluding commercial annuities from providing payments that started out small but increased over time, such as guaranteed annual increases and the return of premium death benefits.

Qualifying longevity annuity contracts (QLACs) - Section 202

A QLAC is a type of deferred annuity that is designed to start paying benefits toward the end of a beneficiary's life expectancy thus providing them longevity protection. QLACs are typically held in an IRA or 401(k). An individual purchasing a QLAC must specify when they want the income payments to begin, which must be on or before age 85. The dollar limitation for premiums increased to $210,000 from $200,000 as of January 1, 2025. The law also eliminated a previous requirement that limited premiums to 25% of an individual's retirement account balance.

Insurance-dedicated exchange traded funds (ETFs) - Section 203

This provision eliminates the conflict between the ETF rules and the insurance industry segregated account rules by letting all variable annuity holders buy insurance-dedicated funds that track the performance of publicly traded ETFs as well as the performance of mutual funds. Effective for segregated account investments made on or after seven years from the date of enactment.

Reduction of excise taxes on excess accumulations in qualified retirement plans - Section 302

After enactment of this provision, the failure to withdraw the full amount of a RMD results in a 25% excise tax (down from 50%) on the difference between the amount of the RMD and the actual amount withdrawn. For example, if an individual's RMD was $10,000 but the individual did not withdraw anything for that tax year, the excise tax owed would be $2,500 (($10,000 -$0) x 25%). However, if the mistake is corrected in a timely manner, defined under SECURE 2.0 as the end of the second tax year following the year in which the distribution should have been made, the penalty would be reduced further to 10%.

One-time election for qualified charitable distribution (QCD) to split interest entity and increase in the QCD limitation - Section 307

As of 2025, individuals aged 70½ or older can transfer up to $108,000 tax-free each year from their traditional IRAs directly to a charity. In addition to the QCDs being excluded from tax, they also can count for all or a portion of an individual's annual RMD. The annual QCD limit is now indexed for inflation and expanded to permit a one-time gift up to $54,000, adjusted annually for inflation, to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity.

Contributions to a split-interest entity benefit not only the charity but also the individual IRA owner by generating an income stream to that individual for a selected term of years (not to exceed 20 years) or for their lifetime. This allows donors to be philanthropic while at the same time receiving an income stream during their retirement years.

Elimination of Roth 401(k) RMDs - Section 325

As of tax year 2024, RMDs from an employer-sponsored plan are no longer required for Roth accounts.

Long term care premium exception to 10% early withdrawal penalty - Section 334

Beginning in December 2025, retirement plans will be permitted to distribute up to $2,500 per year to pay premiums for specified long-term-care insurance contracts, under act Section 334. The distributions will be penalty-free. Section 312, effective in 2023, allows employees to self-certify that they have had an event that constitutes a hardship for purposes of hardship withdrawal certification.

Special needs trust can have charity as remainder beneficiary - Section 337

Special rules apply to certain beneficiaries such as those with a disability. This provision clarifies that for a special needs trust established for a beneficiary with a disability, the trust may now designate a charitable organization as a remainder beneficiary.

SIMPLE and SEP IRAs permitted to accept Roth contributions - Section 601

Generally, most qualified retirement plans that allow pre-tax employee contributions are permitted to accept Roth contributions, with the only exceptions SIMPLE IRAs and most simplified employee pension plans (SEPs). This provision remedies that situation by now allowing employees the ability to make Roth contributions to their SIMPLE and SEP IRAs.

Roth treatment mandatory for catch-up contributions of high earners - Section 603

Section 603 requires any catch-up contributions to be characterized as Roth contributions if made by a participant earning wages exceeding $145,000 in the preceding year, beginning in tax year 2024. This means that employers who allow catch-up contributions must begin offering Roth plans in addition to their pretax retirement plans, if not offered already. Although the high-earnings provision is technically still effective on Jan. 1, 2024, the IRS announced a two-year administrative transition period, thereby effectively extending the effective date to Jan. 1, 2026. During the transition period, plans may continue to allow pretax catch-up contributions by highly paid participants and plans that do not have Roth features may continue to allow catchup contributions. Thus, through 2025, a plan that does not provide for designated Roth contributions will be deemed to have satisfied the requirements.

Optional treatment of employer matching contributions as Roth contributions - Section 604

Currently, employer matching contributions must be on a pre-tax basis. Under this provision, qualified retirement plans such as 401(k), 403(b), and 457(b) plans may now allow a participant to designate some or all of their matching contributions and nonelective contributions as designated Roth contributions. However, these matching Roth contributions would be taxable to the employee and the employee would immediately be vested in such contributions.

When considering rolling over the proceeds of your retirement plan to another tax-qualified option, such as an IRA, please note that you may have the option of leaving the funds in your existing plan or transferring them into a new employer's plan. You may wish to consult with your new employer, if any, to learn more about the options available to you under your plan and any applicable fees and expenses. You may owe taxes if you withdraw funds from the plan. Please consult a tax advisor before withdrawing funds. Contributions to a Roth IRA may generally be withdrawn at any time without tax consequences. Earnings may generally be withdrawn tax-free if the account is held at least 5 years and withdrawals are made after the account owner reaches age 59½. If earnings withdrawals are made before the 5-year period or age 59½, income taxes are due, and a 10% federal tax penalty may apply. Securities are offered by Registered Representatives of NYLIFE Securities LLC, Member FINRA/SIPC, a Licensed Insurance Agency. As a result of the Tax Cuts and Jobs Act of 2017, the estate, gift, and generation skipping transfer tax exemption amounts increased to approximately $11.18 million per person (approximately $22.36 million for a married couple). For assets transfers in excess of the applicable exemption amount and otherwise subject to such taxes, the highest applicable federal tax rate remains at 40 percent. While the exemption amounts are indexed for inflation, current law provides for an automatic sunset of these increased exemption amounts after 2025. As a result, the exemption amounts available in 2026 and beyond could be reduced to a level provided under prior law ($5.49 million/single and $10.98 million/couple in 2017, indexed for inflation) absent further action by Congress. In addition, under different rates, rules, and exemption amounts (if any), there may be state and local estate, inheritance, or gift taxes that apply in your circumstances. This tax-related discussion reflects an understanding of generally applicable rules and was prepared to assist in the promotion or marketing of the transactions or matters addressed. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding any IRS penalties that may be imposed upon the taxpayer. New York Life Insurance Company, its agents and employees may not give legal, tax or accounting advice. Individuals should consult their own professional advisors before implementing any planning strategies. These materials are prepared by The Nautilus Group®, a service of New York Life Insurance Company, and are made available to all Nautilus Group member agents, and as a courtesy, to select agents of New York Life Insurance Company. SMRU 5450649 Exp. 02/29/2028