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What advisors need to know about SECURE 2.0

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SECURE 2.0 builds on the original SECURE (Setting Every Community Up for Retirement Enhancement) Act of 2019 to bolster Americans' ability to save for retirement. Although many of the provisions in the most recent version focus on workplace plans, it does present opportunities for advisors to help individuals build and protect a nest egg.

Before you start to talk to clients about how they can take advantage of the changes, it's helpful to understand the nuances of the provisions, including several limitations. Below we take a closer look at the parts of the law that offer planning opportunities for individual investors and what advisors need to know about them.

1. Investors may have more time to fund a Roth IRA

With the passage of SECURE 2.0, owners of retirement accounts may delay starting their required minimum distributions (RMDs) until age 73 in 2023, and age 75 in 2033. These changes extend the planning horizon for clients who want to convert assets from their tax-deferred retirement accounts to tax-free Roth accounts. Generally, clients look to convert in the period after retirement — when their taxable income and tax bracket decline — and before they must take RMDs. Although converting may increase taxable income in the short term, turning those taxable assets into tax-free assets may help reduce their future tax bills, provide additional planning flexibility, and lead to greater tax efficiency over the longer term.

In addition, clients could make small, incremental conversions to a Roth account. This Roth "laddering" can serve to move tax deferred assets into tax-free accounts over time.

2. 529s got a little more flexible

Clients saving for a child's education may have hesitated to take advantage of 529 College savings plans because of the risk those assets would be trapped if the beneficiary didn't use them all to fund education. The new law provides a way for those unused education assets to be rolled into a Roth IRA without penalty.

There is, however, a significant list of requirements for a conversion:

- The name on the Roth IRA needs to match the named beneficiary of the 529 plan
- The 529 plan account must have been in place for at least 15 years
- Contributions must be in the account for at least five years before they are eligible for rollover
- Total (rollover and other) annual contributions to the Roth IRA cannot exceed the statutory limit (i.e., the lesser of the beneficiary's earned income or $6,500 for 2023)
- Total lifetime contributions rolled from a 529 to the Roth IRA cannot exceed $35,000

In addition, there are still some unanswered questions. For example, the law doesn't indicate whether the fifteen-year clock restarts if you change the beneficiary. And some state plans may not conform immediately, or ever, with the new federal rules.

The change also presents other possibilities. For example, HNW clients looking to contribute to both education and retirement savings for a child or grandchild might want to consider whether it makes sense to overfund a 529 plan. And since the law isn't clear about whether the 15-year clock resets if the account beneficiary changes, clients might even be able to use a 529 to fund their own continued education and/or retirement.

3. Charitable givers have more funding options

The law calls for the annual IRA qualified charitable distribution (QCD) limit of $100,000 to be indexed for inflation after the 2023 tax year. Even more notable is the potential list of recipients has been expanded to include split-interest entities. For clients looking to generate income in addition to giving to charity, the change allows a one-time QCD of up to $50,000 to one of either a charitable remainder unitrust, charitable remainder annuity trust or a charitable gift annuity using a direct transfer from an IRA. This is particularly valuable for charitably inclined clients facing RMDs — provided they don't need the money for other things.

4. Widows and widowers may be able to take later and lower RMDs

Since 2024, surviving spouses can elect to be treated in the same manner as the deceased spouse. That change may provide additional planning benefits if the younger spouse dies first:

- RMDs for the survivor would be delayed until the year the decedent would have reached age 73 or 75, depending on their year of birth
- RMD amounts would be lower, since they will be based on the IRS Uniform Lifetime Table, rather than the Single Life Expectancy Table currently used to calculate RMDs
- If the surviving spouse dies before RMDs begin on the decedent's IRA, the survivor's beneficiaries would be treated as if they were the original beneficiaries of the original account holder. If any of these beneficiaries could be classified as eligible designated beneficiaries under the original Secure Act, they could stretch distributions over their life expectancy, rather than having to adhere to the 10-year rule.

5. Older clients can make higher, and Roth-like, contributions to retirement

Since 2024, clients over age 50 who earn more than $145,000 can make catch up contributions that are taxed in the year they are contributed. Starting in 2025, those who are 60–63 can contribute the greater of $10,000 or 50% more than the regular catch-up amount.

CONCLUSION

While SECURE 2.0 doesn't transform the retirement planning landscape, it may be valuable to talk to your clients about which changes they can leverage — and how — to get closer to their goals.

If you have questions or would like more information about how to implement these planning opportunities, contact your Advisor Consultant or find additional resources on Nuveen.com.

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Endnotes

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