Congress Passes Major Boost to Retirement Savings

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Among other provisions, the SECURE Act 2.0 will raise the age at which individuals must begin taking required minimum distributions (RMDs) from their retirement account to 73, beginning in January 2023.

In its final act of 2022, Congress approved a massive year-end spending bill that includes a set of bipartisan enhancements to retirement savings.

The retirement package, known as SECURE Act 2.0, was included in the 4,155-page bill that will fund every federal agency and government program through September 30, 2023. The bill was cleared by the House on December 23, one day after the Senate voted for it.

The SECURE Act 2.0 legislation that was incorporated into the larger bill is the result of negotiations between House and Senate members in recent months to combine three different retirement-focused bills that enjoyed bipartisan support across both chambers. It builds on the SECURE Act, which was approved by Congress in 2019.

The most notable provision in the new bill increases the age at which individuals must begin taking required minimum distributions (RMDs) from their retirement account to 73 from 72, beginning January 1, 2023. In 2033, the RMD age will increase again, to 75.

The bill also increases catch-up contributions for individuals ages 60 through 63, beginning in 2025. Individuals who qualify could contribute an additional 50% of the regular catch-up contribution limit, which kicks in at age 50. If the provision were in place for 2023, that would mean a 62-year old could contribute the maximum to his company's 401(k) plan of $22,500, plus a catch-up contribution of $7,500, plus an additional 50% of that catch-up contribution, or $3,750—for a total of $33,750. That amount is likely to rise a bit by the time the new rules take effect in 2025.

In addition, the individual retirement account (IRA) catch-up contribution limit would be indexed to inflation beginning in 2024. That means the current $1,000 cap on catch-up contributions would rise annually to keep up with inflation.

The legislation also makes a number of changes to help companies start an employer-sponsored plan or to encourage participation in an existing plan. The law, for example, creates a "Starter 401(k)" plan that simplifies the requirements for a small company to launch a plan and expands the tax incentives for companies that start a plan. Beginning in 2025, employees at companies that are launching a new retirement plan would be automatically enrolled in the plan, unless they opt out, and would see their contribution amount automatically increased annually.

It also enhances the Saver's Credit, which encourages lower-income individuals to save for retirement. The bill turns that into a "Saver's Match," where the federal government would match contributions directly into an individual's retirement account.

Other significant provisions:

- Employees who have a Roth 401(k) won't have to take RMDs from the account starting in 2024.

- Beginning in 2024, employers have the option to match student loan payments with a contribution to the employee's retirement plan account. The goal is to help workers who are burdened by student loans and can't afford to make a contribution to their retirement plan by ensuring that they are accumulating some retirement savings even as they pay down their loan.

- Employers will also have the option to allow employees to create "rainy-day funds" in their retirement plan. Individuals would then be able withdraw up to $1,000 from the plan penalty- and tax-free for emergencies. The provision addresses a concern that spiked during the pandemic, when employers saw a big increase in the number of employees who were tapping their retirement accounts to cover unexpected expenses.

- Victims of domestic abuse can withdraw up to $10,000 penalty-free from their retirement plan account.

- Individuals can withdraw up to $22,000 from an employer-sponsored plan or an IRA for federally declared disasters.

- Individuals can roll up to $35,000 from a 529 to a Roth IRA in the name of the student beneficiary. The 529 account must have been in existence for at least 15 years. That provisions becomes effective in 2024.

- Long-term part-time workers will become eligible for their company's retirement plan after two consecutive years with at least 500 hours of service. Current law requires three years of service.

- The creation of a "retirement savings lost and found" national database that will help individuals find their benefits if they changed jobs, or if the company they worked for moved, changed its name or merged with a different company.