ELECTION-YEAR SWEETENERS TO RETIREMENT SAVINGS ACCOUNTS

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Sometimes it feels that Congress can get nothing accomplished. During this election year, however, all parties are coming together to offer additional retirement account benefits to individual employees, employers and retirees. Nearing the finish line with bipartisan support is one bill that will soon be voted on by the House and Senate, known as the EARN (Enhancing American Retirement Now) Act, previously referred to informally as "SECURE Act 2.0."

You may recall that the original SECURE Act itself became law in December 2019, and it made numerous changes to retirement account (401(k) and IRA account) rules at the time. Highlights included raising the age for RMDs (Required Minimum Distributions) up to 72 years old and eliminating the "stretch IRA" for non-spouse inheritors of an IRA. Now there are additional changes in store.

In your role as either a working employee, business owner, or fully retired person, there might be something new for you when it comes to your savings plan!

Here are just a few of the proposed changes in the bill:

FOR EMPLOYEES:

a. If you are working at age 60 or over, the additional "catch-up" employee contribution limit will be raised from $6,500 to $10,000 each year above the otherwise applicable limits.

b. Long-term, part-time status employees will first be eligible to contribute to a 401(k) plan sooner, moving from 5 years of company tenure down to 2 years.

c. Student loan payments can "count" as voluntary 401(k) contributions in the same amount for the purposes of earning an employer matching contribution, the employee thus earning the match amount even though the employee contribution isn't funded.

d. For those over 50, the IRA account "catch-up" contribution limit of $1,000 will be indexed to adjust upward with inflation from year to year.

FOR BUSINESS OWNERS:

a. An additional tax credit for companies with fewer than 100 employees is proposed to help cover the cost of setting up a retirement plan for employees.

b. Contributions to a Simple IRA by a company for its employees will have an increased limit of $16,500, up from $14,000, which will be also indexed to increase with inflation.

FOR RETIREES:

a. The first year of a Required Minimum Distribution (RMD) will go up to age 75 from 72, gradually in steps between 2023 and 2033.

b. The 50% penalty for failing to take one's RMD will be reduced to 25% generally, and 10% if accomplished late but within a short qualifying time period.

c. The $100,000 annual Qualified Charitable Distribution that allows for a direct gift from one's IRA to a charity will be indexed to increase with inflation. Additionally, a one-time $50,000 gift to a charity will be permitted from one's IRA directly into a Charitable Gift Annuity, Charitable Remainder Unitrust, or Charitable Remainder Annuity Trust.

d. The 10% penalty for early IRA distribution (prior to age 59.5) will be waived on up to $2,500 taken from the IRA for the purposes of paying a long-term care insurance premium.

The above list is not comprehensive and is not yet finalized. Many additional changes applicable to 403(b) plans and pensions are also in the legislation.

Be ready to ask your tax professional about the items that may be applicable to your situation.
In any case, it is nice to hear about some good news from Washington!

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