SECURE 2.0: Key Provisions Taking Effect in 2025

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Congress passed the Securing a Strong Retirement Act of 2022 (SECURE 2.0) on December 29, 2022.

SECURE 2.0 was a substantial piece of legislation with significant implications for the retirement plan industry. Some of its 90 provisions became effective immediately upon its passage, with others activating at future dates.

Below are several key provisions taking effect in 2025 and how they may impact retirement plan sponsors and their participants.

Automatic Enrollment

Beginning in 2025, except for some small businesses with less than 10 employees and a few other exceptions, new 401(k) and 403(b) plans will be **required to use auto-enroll and auto-escalate provisions.**

SECURE 2.0 is effectively accelerating this trend in the retirement plan space. Participants may proactively “opt in” to a retirement plan today, but in the future they will be expected to “opt out” rather than “opt in” to a retirement plan.[1] This provision is specifically designed to encourage plan participation and retirement readiness.

Increased Access for Part-Time Employees

The work requirement of at least 500 hours of service is being moved from three consecutive years to two consecutive years to allow long-term part-time employees to participate sooner in 401(k) plans and ERISA-covered 403(b) plans. This provision increases access to and encourages part-time employees to save for retirement.

Increased Catch-Up Provision

Beginning in 2025, change is coming to the catch-up contribution rules. As a reminder, catch-up contributions allow participants aged 50 and older to defer additional amounts to their retirement account. The catch-up contribution is indexed to inflation, and for 2025 that amount is $7500. Starting next year, participants aged 60, 61, 62, and 63 will be able to make "super" catch-up contributions up to $11,250, or 50% more than the regular catch-up contribution. For SIMPLE plans, participants may put in an additional $1750, or 50% more than the standard $3500 catch-up.

Clarification on SECURE 1.0 Required Minimum Distributions

If you have an inherited IRA, and you are not an *eligible designated beneficiary*, SECURE 2.0 requires that you not only take required minimum distributions (RMDs) *annually*, but also that you complete the distribution of *the entire balance of the inherited IRA within 10 years*.

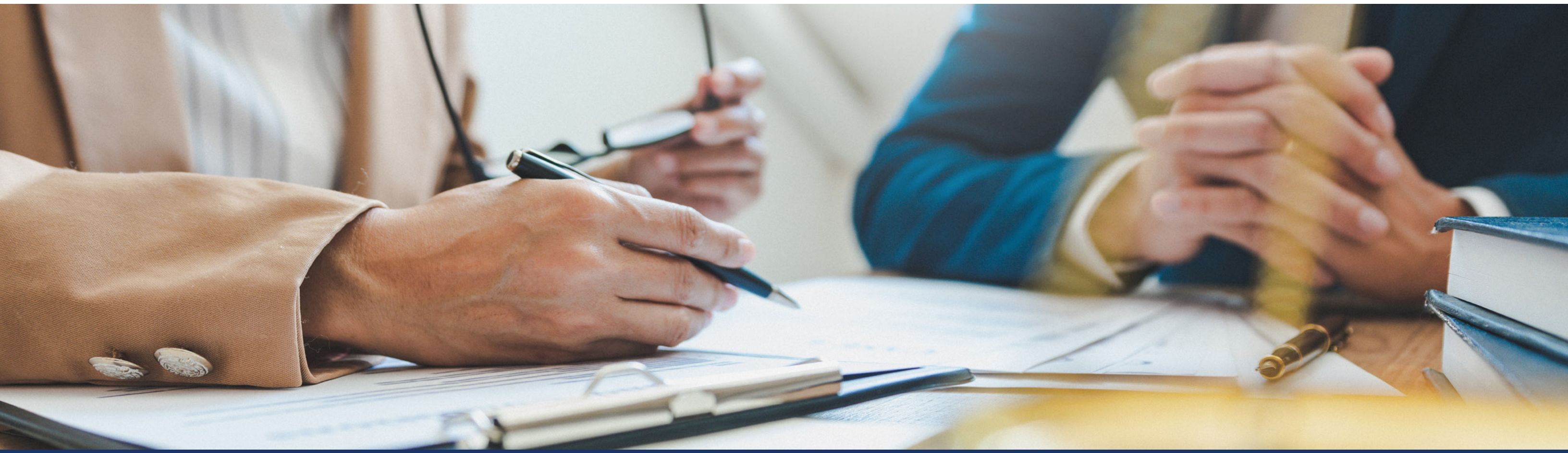
An *eligible designated beneficiary* is a surviving spouse, a child of the account holder under 21, a disabled or chronically ill person, or someone less than 10 years younger than the account holder. However, adult children who inherit IRAs are NOT *eligible designated beneficiaries* and are now subject to RMDs and the 10-year rule.[2]

The Roth Catch-Up Provision

Catch-up contributions must be Roth (after-tax dollars) for all higher earners (employees earning $145,000 or more, indexed for inflation). This provision was scheduled to begin in 2025 but has been moved back to 2026 as it is proving complicated for recordkeepers to implement.

Conclusion

SECURE 1.0 and 2.0 have brought meaningful changes to the retirement plan landscape. The above-mentioned provisions are not an exhaustive list; we have highlighted several key provisions that are now part of the law. Whether you need assistance navigating and taking advantage of new provisions in your employer's plan or are a business owner looking for help bringing your plan in line with these changes, Roehl & Yi is happy to help.



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[1]Kiplinger, SECURE 2.0 Act Summary: New Retirement Rules to Know, last updated 6/25/24. https://www.kiplinger.com/retirement/bipartisan-retirement-savings-package-in-massive-budget-bill/.

[2]Untangling the IRS's New Finalized (and Proposed) Regulations on RMDs: The 10-Year Rule, Trust Beneficiaries, Spousal Beneficiaries, Annuities, and More! Kitces.com, https://www.kitces.com/blog/secure-act-2-0-irs-regulations-rmd-required-minimum-distributions-10-year-rule-eligible-designated-beneficiary-see-through-conduit-trust/.