

A photograph of the United States Capitol building in Washington, D.C., taken from a low angle. The building's iconic dome is the central focus, topped with the Statue of Freedom. The sky is a mix of deep blue and orange, suggesting a sunset or sunrise. An American flag flies on a tall pole in front of the building. The foreground shows the wide, stone steps leading up to the entrance.

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WASHINGTON WATCH

SECURE 2.0 Approved

Washington Watch

After months of negotiation between the House and Senate leaders, the SECURE 2.0 Act was signed into law by President Biden on December 29, 2022. The bill is intended to upgrade the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019. While SECURE 2.0 includes a great deal of changes, we want to highlight some notable provisions for Callan Family Office clients from a financial planning perspective, which are:

Changes to Required Minimum Distributions (RMDs)

The age an individual must begin taking RMDs from his or her retirement account (e.g., IRA, 401(k)) changed from 72 to 73 years. The change applies to anyone who turns 72 on or after January 1, 2023. In 2033, the age increases again from 73 to 75 years. Please note: If you turned age 72 years in 2022, you must take your first RMD by April 1, 2023.

If individuals failed to take RMDs, or underestimated the amount, the penalty was 50% of the shortfall. Effective in 2023, the penalty changes from 50% to 25%. The 25% penalty is further reduced to 10% if the error is corrected within two years.

RMDs will no longer be required from an individual's Roth 401(k) account beginning in 2024.

Qualified Charitable Distributions (QCDs)

Currently, a QCD exclusion of up to \$100,000 can be paid directly to one or more qualified public charities and/or private foundations each year from an individual's IRA to avoid an otherwise taxable RMD distribution. The IRA account owner must be aged 70 ½ or older to donate. QCDs count toward the annual RMD requirement.

Beginning in 2023, another option is available to take advantage of the QCD exclusion. An individual is permitted to make a one-time contribution of up to \$50,000 of the \$100,000 QCD exclusion, indexed annually, from his or her IRA directly to a charitable remainder unitrust, charitable

remainder annuity trust, or a charitable gift annuity. A one-time election must be made to treat the contribution as if it were made to a qualified charity. In addition to the general rules that govern these type entities, SECURE 2.0 places additional rules and requirements when funding these entities with QCDs. Thus, consulting with a CPA to fully understand the nuances of making a QCD election is important.

Beginning in 2024, the QCD exclusion of \$100,000 will be indexed annually for inflation, which will allow for a moderate increase each year.

529 Plans

Beginning in 2024, individuals who have a 529 education plan in place for a minimum of 15 years can redirect unused funds, up to \$35,000, to a tax-free Roth IRA. The Roth IRA would be in the name of the student beneficiary. Having the flexibility to roll over unused funds to a Roth IRA will present a significant benefit and attractive option to a new generation of savers.

Catch-Up Contributions to Retirement Plans

The current IRA and Roth IRA catch-up contribution for individuals aged 50 and older is \$1,000. Beginning in 2024, the catch-up contribution limit will be indexed annually for inflation, which means the limit will increase in increments of \$100.

The current retirement plan (401(k), 403(b), 457, and SARSEPs) catch-up contribution limit for individuals aged 50 and older is \$7,500. While the catch-up contribution amount remains available to individuals aged 50 and older each year, beginning in 2025, individuals aged 60 to 63 years will have the option to contribute the greater of (1.) \$10,000, or (2.) 50% more than the regular catch-up contribution amount in effect for 2024 (as indexed). The \$10,000 amount will be indexed for inflation starting in 2026.

For additional information, please contact your relationship manager at Callan Family Office.

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