Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

ADVANCED MARKETS AND SOLUTIONS

SECURE Act 2.0

In December 2022, the Consolidated Appropriations Act was passed into law to fund the government through September 30, 2023. Division T of this important budget package is commonly referred to as SECURE Act 2.0. It builds on many of the principles introduced in the first version of the SECURE Act which passed in similar fashion in 2019.

There are more than 90 provisions in the Act that may have an impact on the financial planning decisions of many Americans. This summary is intended to provide descriptions and effective dates for key provisions contained in the SECURE Act 2.0. Please note that not all provisions are included.

Starting January 1, 2023

§ 102. Credit for small employer pension plan start-up costs
Tax credit can now offset up to 100% of qualified start-up costs for employers with up to 50 employees. Additional credit available for five years of up to $1,000 per employee equal to the applicable percentage of eligible employer contributions to an eligible employer plan (not including a defined benefit plan). This credit applies to employers with up to 50 employees and is phased out for employers with between 51 and 100 employees. There is an exception for employees with wages in excess of $100,000, as adjusted for inflation.

§ 107. Required beginning date for required minimum distributions (RMDs)
Increases the RMD age to: (i) 73 for a person who attains age 72 after December 31, 2022 and age 73 before January 1, 2033, and (ii) 75 for an individual who attains age 74 after December 31, 2032.

§ 202. Qualifying longevity annuity contracts (QLACs)
Updates eliminate the 25% limit of the individual's account balance and increase the dollar limit from $125,000 (indexed) to $210,000 (indexed) for 2025. Further clarifies that employees may rescind a contract during the 90-day trial period ("short free-look period").

§ 204. Eliminating a penalty on partial annuitization
New rules direct the Secretary of the Treasury to update the applicable regulations as follows: to calculate the RMD for a retirement account that holds annuity contracts and other assets, the employee may elect to have the RMD calculated by applying the defined contribution rules to the entire account. The account balance will include the value of the annuity contracts, and the payments from those annuity contracts will be applied toward satisfying the RMD. As of 1/1/2025 final guidance has not been issued. Taxpayers should consult a qualified tax professional for guidance regarding their individual circumstances.

§ 302. Reduced excise tax for missed RMDs

The excise tax for failure to take RMDs is reduced from 50% to 25%. Excise tax is reduced to 10% if the individual corrects the shortfall during a two-year correction window. The two-year window is cut short if a notice of tax deficiency is mailed or the excise tax is assessed.

§ 307. Qualified charitable distributions (QCDs)

Individuals may now make a one-time election of up to $54,000 (indexed for inflation) for qualifying charitable distributions to certain split-interest entities, such as charitable remainder trusts. Indexes the regular $105,000 limit to $108,000 in 2025. QCDs may be made only from traditional and Roth IRAs, and the owner or beneficiary must be at least age 70½.

§ 323. Substantially equal periodic payments

Substantially equal periodic payment exception will continue to apply after certain transfers, rollovers, 1035 exchanges, and for certain annuities. **Effective for transfers, rollovers, and exchanges starting in 2024, and effective for annuity distributions starting in 2023.**

§ 326. Withdrawals for individuals with a terminal illness

An additional exception to the federal additional 10% tax for early withdrawals has been added for individuals whose physician certifies that they have an illness or condition that is reasonably expected to result in death in 84 months or less.

§ 331. Special rules for use of retirement funds in connection with qualified federally declared disasters

Permanently allows up to $22,000 as a qualified disaster recovery distribution within 180 days of the disaster. The distribution may be repaid within three years. **(Disasters occurring on or after January 26, 2021)**

§ 332. SIMPLE retirement account replacement with safe harbor 401(k) plans during a year

Current law prohibits the replacement of a Simple IRA plan with a 401(k) plan midyear. Rollovers from the SIMPLE IRA to the 401(k) plan can take place if the SIMPLE IRA has been in place for at least two years.

Permits an employer to elect to replace a SIMPLE IRA plan with a safe harbor 401(k) plan at any time during the year, provided certain criteria are met. The 2-year rollover limitation in SIMPLE IRAs converting to a 401(k) or 403(b) plan is waived. **Effective for plan years beginning after December 31, 2023.**

§ 333. Elimination of additional tax on corrective distributions of excess contributions

Current law requires a corrective distribution of an excess contribution to an IRA, along with any earnings on the excess contribution. The distribution is subject to the additional 10% federal tax for early withdrawals.

Exempts corrective distributions and corresponding earnings from the additional 10% federal tax for early withdrawals. **Effective for any determination of, or affecting, liability for taxes, interest, or penalties that is made on or after the date of enactment (December 29, 2022) (without regard to whether the act or failure to act upon which the determination is based occurred before the date of enactment).**

§ 337. Modification of required minimum distribution rules for special needs trusts

Clarifies that in the case of a special needs trust established for disabled beneficiaries, the trust may provide for a charitable organization as the remainder beneficiary without affecting the applicable distribution period for the trust.

§ 601. SIMPLE and SEP Roth IRAs

Contributions through SEP and SIMPLE IRA plans may now be designated as contributions to SEP and SIMPLE Roth IRAs.

§ 604. Employer matching or non-elective contributions as Roth contributions

Allows defined contribution plans to permit employees to designate employer matching or non-elective contributions as Roth contributions. Student loan matching contributions may also be designated as Roth contributions. Matching and non-elective contributions designated as Roth contributions are not excludable from the employee's income, and must be 100% vested when made.

§ 108. Indexing IRA catch-up limit

Annual IRA catch-up contributions for those who are age 50 or over (currently $1,000 for 2025) are now indexed for inflation in $100 increments.

§ 110. Student loan payments treated as elective deferrals for purposes of matching contributions

New rule allows for plan design that provides for a non-elective employer contribution based on student loan repayments. Employer contributions made on behalf of employees for "qualified student loan payments" are treated as matching contributions, so long as certain requirements are satisfied. Applies to 401(k), 403(b), SIMPLE IRAs, and governmental 457(b) plans. Employee certification of loan payment may be used.

§ 115. Withdrawals for certain emergency expenses

One withdrawal that will be an exception to the 10% federal additional tax of up to $1,000 per year for "unforeseeable or immediate financial needs relating to personal or family emergency expenses" is now permitted. The withdrawal may be repaid within three years. Only one withdrawal per three-year repayment period is permitted if the first withdrawal has not been repaid.

§ 116. Additional non-elective contributions to SIMPLE plans

Employers may now make contributions for each participant of a SIMPLE plan in addition to regular employer required contributions. Must be made in a uniform manner and the contribution may not exceed the lesser of 10% of compensation or $5,000 (indexed for inflation).

§ 117. Contribution limit for SIMPLE IRAs

Increases the annual deferral limit to 110% of the 2025 Simple IRA plan limit (as indexed) and the catch-up contribution limit at age 50 to 110% of the 2025 Simple IRA plan limit (as indexed) in the case of an employer with no more than 25 employees. An employer with 26 to 100 employees would be permitted to provide these higher deferral limits, but only if the employer either provides a 4% matching contribution or a 3% employer contribution. The bill makes similar changes to the limits for SIMPLE 401(k) plans.

§ 121. Starter 401(k) plans

Two new plan designs are available for employers that do not sponsor a retirement plan: a "starter 401(k) deferral-only arrangement" and a "safe harbor 403(b) plan." The limit on annual deferrals is $6,000, with an additional $1,000 catch-up beginning at age 50, with both limits indexed for inflation. Each employee must be treated as having made a deferral election, but each employee may elect out of the deferrals.

§ 126. 529 Plan to Roth IRA Rollovers

Some 529 plan balances may now be rolled over to a Roth IRA. 529 must have been maintained for at least 15 years. Beneficiary of 529 must match Roth IRA owner. The rollover is subject to the annual contribution limits of Roth IRAs. Owner/beneficiary must have compensation at least equal to the amount of the rollover. There is a lifetime limit of $35,000.

§ 127. Emergency savings accounts

Short-term emergency savings accounts may be included as part of a defined contribution plan. The accounts must be funded post-tax with Roth contributions. Capped at $2,500 (indexed for inflation) or a lower amount determined by the plan sponsor, and there cannot be minimum contribution or balance requirements.

§ 314. Withdrawals in case of domestic abuse

Early withdrawals (not subject to the 10% federal additional tax) are allowed in the case of domestic abuse in an amount not to exceed the lesser of $10,000 (indexed) or 50% of the value of the employee's vested account under the plan. The withdrawal may be repaid within three years.

§ 325. Roth distribution rules

RMDs from Roth accounts in 401(k) plans and other defined contribution plans will no longer be required.

§ 327. Surviving spouse election to be treated as employee

Allows a spousal beneficiary to irrevocably elect to be treated as the employee for RMD purposes and if the spouse is the employee's sole designated beneficiary, the applicable distribution period after the participant's year of death is determined under the uniform lifetime table.

§ 603. Elective deferrals generally limited to regular contribution limit

Catch-up contributions to retirement plans must be made on a Roth basis, except for eligible participants whose prior year wages do not exceed $145,000 (indexed for inflation). Does not apply to SIMPLE IRA or SEP plans. Notice 2023-62 pushed this requirement to 2026.

Effective 2025

§ 101. Automatic enrollment in retirement plans

401(k) and 403(b) plans must include automatic enrollment with a default rate of between 3% and 10%, as well as automatic escalation of 1% per year up to a maximum of at least 10%, but no more than 15%. Employees may opt out of coverage. The requirement to include automatic enrollment does not apply to plans established before 2023. Other exceptions apply.

§ 109. Increased catch-up limit to apply at age 60, 61, 62, and 63

Increases the limit on catch-up contributions for individuals age 60-63 to the greater of (i) $11,250 or (ii) 150% of the regular catch-up amount of $11,250 for 2025, indexed for inflation for non-SIMPLE plans. Also increases the limit on catch-up contributions for individuals age 60-63 to the greater of (i) $5,000 or (ii) 150% of the regular catch-up amount beginning in 2025, indexed for inflation for SIMPLE plans.

§ 303. Retirement savings lost and found

The Department of Labor will create an online searchable "lost and found" database to assist in locating benefits owed to missing participants and beneficiaries in tax-qualified retirement plans. This applies to tax-qualified defined benefit and defined contribution plans subject to ERISA vesting provisions.

Effective 2026

§ 334. Long term care contracts purchased with retirement plan distributions

Permits defined contribution plans to distribute a certain amount per year for certain long term care insurance contracts. The amount permitted to be distributed is the lowest of: (1) the amount paid by or assessed to the employee during the year for long term care insurance; (2) 10% of the employee's vested accrued benefit in the plan; or (3) $2,500 (this dollar amount will be indexed for inflation beginning in 2025). Distributions from defined contribution plans would be exempt from the additional 10% federal tax on early distributions if used to pay premiums for high-quality, certified long term care insurance.

Effective 2027

§ 103. Saver's Match

Saver's Credit changed to a refundable credit and will be a direct government matching contribution to the taxpayer's IRA or eligible retirement plan. It was also simplified by creating one credit percentage (with no tiers) of 50% for all savers below the AGI threshold ($41,000 for joint filers, as adjusted for inflation). There is a phaseout for income above the AGI threshold. The credit is treated as a pre-tax contribution to the recipient's plan or IRA.

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