

# Engaging clients on recent retirement legislation

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# Significant legislative changes to retirement accounts in recent years

SECURE 1.0	SECURE 2.0
<ul style="list-style-type: none"> <li>• Open MEPs / PEPs</li> <li>• Increased tax credit for start-up plans</li> <li>• New tax credit for auto-enrollment</li> <li>• Expanded access to lifetime income option</li> <li>• Lifetime income disclosure requirements</li> <li>• Plan coverage for long-time PT workers</li> <li>• RMD age to 72</li> <li>• No age limit for traditional IRA contributions</li> <li>• Repeal of stretch distributions</li> <li>• No early withdrawal penalty for birth/adoption</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced start-up plan tax credit</li> <li>• Auto-enrollment required for new plans</li> <li>• Tax credit to offset employer contributions</li> <li>• New emergency savings accounts</li> <li>• Additional catch-up contributions ages 60-63</li> <li>• SEP and SIMPLE Roth accounts</li> <li>• Roth catch-up for those &gt; \$145k in compensation</li> <li>• Roth matching contributions</li> <li>• RMD age to 73/75</li> <li>• Penalty for not taking RMD lowered</li> <li>• More exceptions to 10% early withdrawal penalty</li> <li>• Roth IRA option for unused 529 funds</li> <li>• Student loan payments considered for employer match</li> </ul>

# Opportunities to engage plan sponsors on recent plan-related changes

- Auto-enrollment for new plans
- Start-up tax credits --- cover 100% of costs for first 3 years
- 403(b) plans can join MEPs and PEPs
- Employer-matching contributions for student loan payments
- Financial incentives for plan participation
- Starter 401(k) and 403(b) plans
- Participant purchases of QLACs

The image shows two screenshots of the Putnam Investments website. The top screenshot is an article titled "SECURE Act 2.0: Seven considerations for retirement plan sponsors" by Mike Dullaghan, Director of DCIO. The article features a header image of colorful human figures. The bottom screenshot is an article titled "5 overlooked retirement changes from SECURE Act 2.0" by Mike Dullaghan, Director of DCIO Content & Sales Enablement. This article features a header image of various nuts and bolts. Both screenshots show the Putnam logo and navigation menus.

# Planning considerations for individuals

- Increase in the RMD age
- Connecting with HNW retirees and their heirs on the new 10-year rule
- Roth accounts to hedge the risk of higher taxes in the future
- New 529 to Roth IRA transfer option
  - \$35,000 lifetime and follows annual Roth IRA contribution limits
  - Roth IRA in name of 529 beneficiary
  - 529 account must be established for at least 15 years

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### Distribution planning under the SECURE Act

The SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) changes the way inherited retirement accounts are distributed, requiring most non-spouse beneficiaries to fully distribute account balances within ten years after the death of the owner. This is referred to as the "ten-year rule" and is a stark difference from the "stretch" option, which allowed beneficiaries to distribute inherited retirement accounts gradually, based on their remaining life expectancy. Given these new rules, here are some key factors to consider when distributing inherited retirement accounts.

Some beneficiaries can still stretch distributions based on life expectancy

The SECURE Act creates a new definition for certain account beneficiaries — referred to as "Eligible Designated Beneficiaries" (EDBs). These beneficiaries are still eligible for life expectancy payouts:

- Spouses
- Disabled or chronically ill beneficiaries
- Minor children of the account owner (until reaching age 21 when the 10-year rule applies)
- Beneficiaries not more than ten years younger than the deceased account owner

Named beneficiaries who do not meet one of these requirements are simply referred to as "designated beneficiaries" and include:

The ten-year rule applies to existing "stretch" distributions for the existing beneficiary designated beneficiaries. Additionally, trust arrangements may be made prior to the SECURE Act, if option to stretch distributions under the new rules, unless proposed regulations in effect for heirs subject to the 10-year rule.

**SECURE 2.0: Key provisions & planning considerations**

In late 2022 Congress passed an omnibus spending bill that included the SECURE 2.0 Act of 2022. This legislation builds on the original SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) that expanded access to retirement accounts, promoted participation, and protected savings. While some changes will take effect in 2023, many will be phased in over the next few years. Here's a summary of key provisions within the new law.

- Increase participation within retirement plans**
  - **Anti-avoidance requirement for new plans:** Beginning in 2025, new 401(k) and 403(b) plans must auto-enroll participants with a minimum deferral rate of 3% of salary but not more than 10%. Unless participants opt out, salary deferrals increase each year by 1% to a maximum of 10%. Exceptions apply for existing plans, employees with 10 or fewer employees, new businesses (less than three years in operation), church plans, and governmental plans.
  - **Enhanced tax credit for startup retirement plans:** Beginning in 2023, certain small businesses establishing new plans will be able to calculate the tax credit based on 30% administrative costs (increased from 10%) with an annual cap of \$5,000. The tax credit is available for the first three years of the plan.
- Increase retirement savings**
  - **Additional catch-up contributions at age 60:** Beginning in 2025, retirement plan participants can increase catch-up contributions at ages 60, 61, 62, and 63. The additional contribution is the greater of \$30,000 or 100% of the catch-up contribution in place for 2024. The current catch-up contribution in retirement plans for those age 50 and greater is \$7,500.
  - **Other provisions include:** Including the IRA catch-up contribution limit for retirees (2024), higher contribution limits for SIMPLE IRAs, DCOL, and a Saver's Match (2027) calculated at 10% of a retirement plan or an IRA contribution up to \$2,000 for those below certain income levels (income phases-out begin at \$25,000 for single taxpayers, \$41,000 for married couples filing a joint tax return).
- Preserve retirement savings**
  - **Anti-age increase:** Beginning this year, the age for required minimum distributions increases from 72 to 73. This means that the RMD age for those born from 1951 through 1959 is 73. The RMD age increases to 74 in 2023, which means those born in 1950 or later will not be required to take minimum distributions until reaching age 75.
  - **Other provisions include:** Elimination of rules for designated Roth accounts (i.e., Roth 403(b) beginning in 2024 and a decrease in the penalty for not taking an RMD. Effective immediately, the penalty is reduced from 10% of the RMD amount to 2%, and as low as 1% if the mistake is corrected in a timely manner.
- Expanded use of Roth accounts**
  - **SEP and SIMPLE Roth accounts:** Beginning this year, the option to contribute to Roth accounts will be available within SEP and SIMPLE plans.
  - **Roth option for employer contributions:** If the plan allows, participants may direct employer matching or other employer contributions to a designated Roth account instead of a traditional pre-tax account.
  - **Requirement for catch-up contributions into a Roth account:** For those with wages exceeding \$45,000 in the previous year, catch-up contributions must be directed into a designated Roth account within the retirement plan, instead of having the option of making those contributions into a traditional, pre-tax account (beginning in 2026).

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# Tax rates poised to increase as the TCJA expires at the end of 2025

Taxable Income	2023 Tax Rates	Projected Tax Rates	Difference
\$0 - \$22,000	10%	10%	0.0%
\$22,001 - \$89,450	12%	15%	3.0%
\$89,451 - \$180,000	22%	25%	3.0%
\$180,001 - \$190,750	22%	28%	6.0%
\$190,751 - \$274,400	24%	28%	4.0%
\$274,401 - \$364,200	24%	33%	9.0%
\$364,201 - \$462,500	32%	33%	1.0%
\$462,501 - \$490,000	35%	33%	2.0%
\$490,001 - \$553,600	35%	35%	0.0%
\$553,601 - \$693,750	35%	39.6%	4.6%
Over \$693,750	37%	39.6%	2.6%

Sources: Internal Revenue Service and Putnam research. Projected tax rates are estimated, based on analysis of 2017 tax rates prior to passage of the TCJA, with tax bracket figures adjusted to account for annual inflation adjustments through 2023. Figures in red indicate an increase in tax rate upon TCJA expiration. Figures in green indicate where tax rates at certain income levels would decrease upon expiration of the TCJA. Based on brackets for married couples filing a joint tax return.

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