CFP BOARD

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KEY ELEMENTS
SECURE 2.0 ACT 2022

PROVISIONS EFFECTIVE JANUARY 1, 2024

IMPACT | CONSIDERATIONS | LEARNING OBJECTIVES FOR THE CFP® CERTIFICATION EXAMINATION

CFP Board developed this document to serve as a resource for educators and CFP® exam-takers highlighting the key elements of SECURE 2.0 ACT 2022 that are effective as of January 1, 2024, and impact later administrations of the CFP® exam.

For each change addressed, this guide identifies the related topics from CFP Board's Principal Knowledge Topics, reviews the change and its impact, highlights planning opportunities and considerations, and provides suggested learning objectives that educators may incorporate in their curricula.

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1 SECTION 107: RMD AGE INCREASES FROM 72 TO 73

E.40 TAX REDUCTION/MANAGEMENT TECHNIQUES
F.48 QUALIFIED PLAN RULES AND OPTIONS
F.51 DISTRIBUTION RULES AND TAXATION
F.52 RETIREMENT INCOME AND DISTRIBUTION STRATEGIES

Change:

- **Section 107 increases the RMD starting age from 72 to 73.**
- **The required beginning date for distributions from employer sponsored retirement plans, SEP IRAs, SIMPLE IRAs, SARSEPs and Traditional IRAs increases to age 73 in tax year 2023 and to age 75 in tax year 2033.**

Impact:

- Individuals born in 1951 or later who do not need qualified income from these retirement accounts may delay their first withdrawal one more year without penalty beginning in 2023.

Planning Opportunities and Considerations:

- Revisit retirement income and withdrawal strategy recommendations.
- Beneficiary planning should be revisited from a tax perspective. This is especially indicated where the holder of the qualified assets expects an abbreviated lifespan and in cases where significant qualified assets are expected to pass to beneficiaries who expect high marginal tax rates when they themselves are forced to distribute.

Learning Objectives:

- Evaluate distribution strategies to achieve goals.

2 SECTION 108: IRA CATCH-UP LIMIT INCREASES WILL BE INDEXED TO INFLATION

E.40 TAX REDUCTION/MANAGEMENT TECHNIQUES
F.48 QUALIFIED PLAN RULES AND OPTIONS
F.52 RETIREMENT INCOME AND DISTRIBUTION STRATEGIES

The IRA catch-up limit increases will be included in the exam tax table resource.

Change:

- **The IRA catch-up limit may receive increases indexed for inflation beginning in 2024. The current limit is $1000.**

Impact:

- This change will allow older workers who are able to fully contribute to their IRAs the ability to commit some amount of additional funds.
- Since the catch-up limit is adjusted periodically for inflation, those covered by the new provision will be able to address purchasing power risk more directly by contributing up to the inflation-adjusted limit.
- The overall impact will be more pronounced for those who can contribute fully for many years between ages 50 and retirement, especially if there is a high inflation environment.

Planning Opportunities and Considerations:

- Retirement accumulation can be increased for anyone aged 50 or over who is able to maximize their IRA contributions. This may also affect goal funding and distribution strategies.
- Planners have an additional tool to mitigate purchasing power risk in retirement.
- Planners using software on behalf of clients who are maximizing contributions will need to ensure that their models reflect this additional capacity to contribute.

Learning Objectives:

- Reevaluate the client’s capacity to save and modify the funding of goals as appropriate.
- Reevaluate the client’s exposure to purchasing power risk.

3 SECTION 110: TREATMENT OF STUDENT LOAN PAYMENTS AS ELECTIVE DEFERRALS FOR PURPOSES OF MATCHING CONTRIBUTIONS

B.10 FINANCING STRATEGIES AND DEBT MANAGEMENT

More guidance is needed before this concept will be tested on the CFP® exam.

Change:

- **Section 110 of SECURE 2.0, effective for plan years beginning after December 31, 2023, allows employers to treat qualified student loan payments as elective deferrals for purposes of employer matching contributions to their defined contribution plans.**

Impact:

- More structure is needed to evaluate the impact of this change on employee retirement plans.

Planning Opportunities and Considerations:

- When planning for lower income working clients, it will be even more prudent to ensure the client is educated about how matches work.
- Analyze the client's cashflows before recommending qualified contributions to receive the match.
- Clients who are overcommitted with contributions may lose their ability to pay bills on time and may incur late fees and penalties related to premature distributions.

Learning Objectives:

- Understand the ability and willingness of a client to save by analyzing their cashflows and existing biases.
- Understand behavioral aspects that may influence a saver's mentality and respond to these appropriately.

4 SECTION 115: WORKPLACE SAVINGS PLAN EXCEPTION FOR CERTAIN EMERGENCY EXPENSE DISTRIBUTIONS

B.9 CASH FLOW MANAGEMENT

B.10 FINANCING STRATEGIES AND DEBT MANAGEMENT

Change:

- **Effective in 2024, a distribution of up to $1,000 may be made from tax-qualified retirement accounts such as 401(k) plans, 403(b) plans, and IRAs without being subject to an early distribution penalty. This distribution may be repaid within three years to restore the distribution's tax qualification. Only one emergency expense distribution may be outstanding at any one time.**

Impact:

- The provision effectively provides a $1,000 no-interest loan with a three-year repayment option to individuals who face an immediate financial emergency. The funds must come from a qualifying retirement account with a sufficient vested balance.

Planning Opportunities and Considerations:

- Financial planners may encounter pro bono or employee benefit clients who will benefit from this provision.
- The withdrawal from tax-preferred retirement accounts provides another option to help clients avoid taking on debt with a much higher interest rate.
- Financial planners should reaffirm the value of an emergency fund for their clients.

Learning Objectives:

- Explain the differences and tradeoffs between a retirement plan loan, a hardship withdrawal, and a withdrawal for certain emergency expenses.
- Compare and contrast emergency funding options for clients in financial triage.

5 SECTION 116: EMPLOYERS PERMITTED TO MAKE ADDITIONAL NONELECTIVE CONTRIBUTIONS TO SIMPLE IRA PLANS

F.48 QUALIFIED PLAN RULES AND OPTIONS

F.50 KEY FACTORS AFFECTING PLAN SELECTION FOR BUSINESSES

Change:

- **Effective in 2024, employers with SIMPLE IRA plans may increase employer (ER) contributions from a maximum of 2% of employee compensation (or 3% if structured as a match) up to the lesser of 10% of employee compensation or $5,000 (indexed).**
- **The 2% of employee contribution or 3% if matching remains mandatory; any additional employer contribution is optional.**

Impact:

- The provision allows employers more flexibility to contribute to SIMPLE IRA plans without requiring employees to contribute more.
- Plan selection may be influenced by total contribution limits. A SIMPLE IRA may be more attractive than other options in the past.

Planning Opportunities and Considerations:

- Employees may benefit from additional non-elective employer contributions.
- While SIMPLE IRA plan contribution maximums are still relatively low compared to other qualified retirement plans, SIMPLE IRA plans are now more appealing to employers who are willing and able to fund discretionary employer contributions.

Learning Objectives:

- Educate employers on their responsibility to provide employer contributions.
- Compare the advantages and disadvantages of making additional discretionary employer contributions to their SIMPLE IRA plan.
- Evaluate a SIMPLE IRA plan relative to other qualified retirement plans when assisting an employer with plan selection.

6 SECTION 117: CONTRIBUTION LIMITS FOR SIMPLE PLANS INCREASE BY 10%

F.48 QUALIFIED PLAN RULES AND OPTIONS

F.50 KEY FACTORS AFFECTING PLAN SELECTION FOR BUSINESSES

Change:

- **Effective in 2024, SIMPLE IRA and SIMPLE 401(k) employee contribution limits including catch-up contribution maximums will increase by 10%.**
- **These limits will be available to all SIMPLE IRA plans serving 25 or fewer employees.**
- **SIMPLE IRA plans serving 26 to 100 employees must make a 4% matching contribution or a 3% employer contribution to offer access to these higher employee contribution limits in the plan.**

Impact:

- This provision increases employee salary deferral limits for SIMPLE IRAs and SIMPLE 401(k)s. Along with Section 116, SIMPLE IRAs have become somewhat more appealing and flexible for both the employer and employees.

Planning Opportunities and Considerations:

- Clients looking to maximize contributions in these plan types should be made aware of this new provision.
- Planners should not assume that the employer will make the extra qualifying employer contribution.
- Ensure client-employers are aware of increased salary deferral limits for SIMPLE IRA and SIMPLE 401(k) plans.
- Planners should verify that their planning software is up to date and allows modeling contributions at the increased levels.

Learning Objectives:

- Understand the impacts of the increased limits for SIMPLE IRAs and SIMPLE 401(k)s.
- Explain the conditions which trigger the requirement for a 4% employee matching contribution or 3% employer contribution for plans covering 26 or more employees.

7 SECTION 121: 401(K) STARTER PLANS ESTABLISHED FOR EMPLOYERS WHO DO NOT CURRENTLY SPONSOR A RETIREMENT PLAN

F.48 QUALIFIED PLAN RULES AND OPTIONS

F.50 KEY FACTORS AFFECTING PLAN SELECTION FOR BUSINESSES

More guidance is needed before this concept will be tested on the CFP® exam.

Change:

- **Effective 2024, employers who do not currently sponsor a retirement plan may create a starter 401(k) plan or safe harbor 403(b) plan with more restrictive contribution limits.**
- **A condition of establishment is that all employees must be enrolled by default with a minimum 3% contribution rate and a maximum 15% contribution rate.**

Impact:

- These starter plans will have relaxed administration and annual reporting requirements.
- Employers will be able to take advantage of a tax credit for starting a new 401(k) plan.

Planning Opportunities and Considerations:

- Planners should consider starter 401(k) plans alongside existing qualified retirement plans targeted at small businesses such as SEP IRAs and SIMPLE IRAs when advising on new plan selection.
- Planners working in the small business retirement plan space are obligated to keep current on the regulatory environment for these plans.
- This new plan option may only have limited practicality as the deferral limits are relatively low compared to other qualified plans.
- Employees should understand the details of the plan and reasons for opting out.

Learning Objectives:

- Present starter 401(k) plans as an option for employers looking to create a new employer sponsored retirement plan in 2024 or later.
- Compare and contrast relevant plan options for employers and employees in the selection process.
- Monitor emerging guidance on administration and annual reporting requirements for this new plan type.

8 SECTION 126: TAX AND PENALTY FREE ROLLOVERS FROM 529 ACCOUNTS TO ROTH IRAS

B.14 EDUCATION SAVINGS VEHICLES

F.48 QUALIFIED PLAN RULES AND OPTIONS

F.52 RETIREMENT INCOME AND DISTRIBUTION STRATEGIES

More guidance is needed before this concept will be tested on the CFP® exam.

Change:

- **Beginning in calendar year 2024, beneficiaries of Section 529 plans which have been open for more than 15 years may roll over up to $35,000 of unused balance in their 529 account to a Roth IRA in the beneficiary's name.**
- **The rollovers are subject to the beneficiary's annual Roth IRA contribution limit and are subject to neither tax nor penalty.**

Impact:

- This provision encourages early establishment of Section 529 plans and more aggressive funding.
- Treatment of residual funds in a Section 529 plan has long been a deterrent to funding for some, as the earnings portion in a non-qualified withdrawal from a Section 529 plan is subject to federal (and sometimes even state) tax as well as a 10% penalty.
- The option to direct unused Section 529 assets as contributions to a Roth IRA may make use of several years of IRA contribution limits which would otherwise have gone unused.

Planning Opportunities and Considerations:

- Assuming a college or university graduation age of 22 and a 15-year requirement that the 529 plan remain open, a planner may now consider recommending opening a 529 plan for a minor no later than the year in which they turn 7 years old.
- They may also be able to share more confidence in the usefulness of basis and earnings for the intended beneficiary given this new provision.
- Legislative changes increase the attractiveness of 529 plans even if the beneficiary does not use all the funds for college.
- Not all beneficiaries have related individuals who they feel could or should benefit from a qualifying transfer, and the student loan paydown option is useless for those beneficiaries who did not take out student loans and only partially useful for those beneficiaries with well over $10,000 remaining in their Section 529 plan.

Learning Objectives:

- Educate clients on this additional use of residual Section 529 plan balances.
- Review plans for clients who have indicated or may indicate interest in education funding for family members and include Section 529 plan establishment timing as a new consideration.
- Understand the effect of this provision on Section 529 asset allocation, transfer strategies, and distribution strategies.
- Monitor emerging guidance on the rollover of funds from Section 529 plans to Roth IRAs.

9 SECTION 302: REDUCTION IN EXCISE TAX FROM 50% TO 25%

F.48 QUALIFIED PLAN RULES AND OPTIONS

F.51 DISTRIBUTION RULES AND TAXATION

Change:

- **The excise tax (i.e., penalty) on missed required minimum distributions in qualified retirement plans, which had been 50%, is reduced to 25%.**
- **The excise tax, or penalty, is reduced to 10% of the amount of the missed RMD if the missed distribution is taken before the earlier of either an IRS audit or the end of the second year the required minimum distribution remained unsatisfied.**

Impact:

- The 50% excise tax had widely been criticized as excessive, especially in relation to other penalties applying to qualified accounts.
- This provision makes RMD oversights less harmful. In cases where the individual was reasonably unaware or unable to take a timely distribution to satisfy the RMD.
- Clients may attach a letter of explanation to the IRS Form 5329 for the tax year in which the missed RMD was removed from the qualified account and the IRS may waive the excise tax if the cause is reasonable and the taxpayer removed the missed RMD.

Planning Opportunities and Considerations:

- Planners should continue to be aware of all qualified accounts owned by the client, even if those accounts are not under management.
- Planners should also be aware of any RMDs due and should ensure their client has met their obligation to distribute all RMDs in a timely manner.

Learning Objectives:

- Understand the changed excise tax that applies to missed required minimum distributions in qualified accounts and the process to cure missed RMDs.
- Understand the importance of monitoring all qualified accounts in a client's possession as they may affect RMD calculations and distribution strategies.

10 SECTION 314: PENALTY-FREE DOMESTIC ABUSE DISTRIBUTIONS

F.51 DISTRIBUTION RULES AND TAXATION

H.70 CRISIS EVENTS WITH SEVERE CONSEQUENCES

Change:

- **Section 314 allows retirement plans to permit participants who self-certify that they experienced domestic abuse to withdraw an amount equal to the lesser of $10,000, indexed for inflation, or 50 percent of the participant's account.**
- **A distribution made under Section 314 is not subject to the 10 percent tax on early distributions. Additionally, a participant can repay the withdrawn money from the retirement plan over 3 years and will be refunded for income taxes.**

Impact:

- When faced with a possible domestic abuse situation, planners have a resource to recommend that would allow the client to obtain funds for their needs.
- Section 314 permits victims of domestic abuse to access funds without a penalty to escape an unsafe situation.

Planning Opportunities and Considerations:

- Planners should be aware of liquidity options, tax implications and exemptions for certain circumstances.
- Planners should get to know clients by asking questions to understand if there is domestic abuse.

Learning Objectives:

- Analyze additional exemptions to the early withdrawal penalty.

11 SECTION 325: REQUIRED MINIMUM DISTRIBUTIONS (RMD) WILL NO LONGER APPLY TO THE ROTH PORTION OF THE 401(K) PLAN INCLUDING A SOLO 401(K) PLAN

F.48 QUALIFIED PLAN RULES AND OPTIONS

F.51 DISTRIBUTION RULES AND TAXATION

Change:

- **The plan funds in a Roth portion of the 401(k) and solo 401(k) account are not subject to the required minimum distribution rules during a participant's lifetime. Previously, RMDs were required in a workplace plan.**

Impact:

- Since RMDs are eliminated, funds in Roth employer plans are no longer required to be distributed removing the difference between Roth employer plans and Roth IRAs.

Planning Opportunities and Considerations:

- Planners must review other factors to determine whether to rollover funds to an IRA now that Roth IRAs and Roth Retirement plan distribution rules are more comparable.
- Planners must conduct an analysis of rollover options and document parameters before performing a rollover to an IRA.

Learning Objectives:

- Implement RMD rules for workplace plans.
- Evaluate the considerations in rolling over a Roth workplace plan into a Roth IRA.

12 SECTION 601: ROTH IRA FOR SIMPLE IRA AND SEP PLANS

F.47 TYPES OF RETIREMENT PLANS

F.48 QUALIFIED PLAN RULES AND OPTIONS

Change:

- **The provision allows Simple IRAs to accept Roth contributions and allows employers to offer employees the option to treat employee and employer SEP contributions as Roth contributions (in whole or in part).**
- **Previously only 401(k), 403(b), and governmental 457(b) plans were allowed to accept Roth employee contributions.**

Impact:

- Participants in Simple IRAs have new options for tax planning purposes.

Planning Opportunities and Considerations:

- Understand the rules and guidance around Traditional vs Roth contributions as they apply to SIMPLE and SEP IRAs.

Learning Objectives:

- Evaluate the potential to include Roth contributions in SIMPLE IRA and SEP plans.

13 SECTION 604: OPTIONAL TREATMENT OF EMPLOYER MATCHING OR NONELECTIVE CONTRIBUTIONS AS ROTH CONTRIBUTIONS

E.37 INCOME TAX FUNDAMENTALS AND CALCULATIONS

F.47 TYPES OF RETIREMENT PLANS

F.48 QUALIFIED PLAN RULES AND OPTIONS

F.51 DISTRIBUTION RULES AND TAXATION

Change:

- **Section 604 allows defined contribution plans to provide participants with the option of receiving matching or non-elective contributions on a Roth basis.**

Impact:

- These changes increase tax diversification choices for the employee.
- The change allows the match on a Roth basis instead of a pre-tax basis.
- The employer Roth match is now included in taxable income.

Planning Opportunities and Considerations:

- A participant making a Roth election will owe income tax on the contributions but will avoid tax on qualified distributions of both principal and appreciation.
- Evaluate impacts on retirement savings strategies on pre-tax vs after tax contributions.

Learning Objectives:

- Understand employer retirement plan options available to participants.
- Evaluate the tax impacts of retirement savings contributions.

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