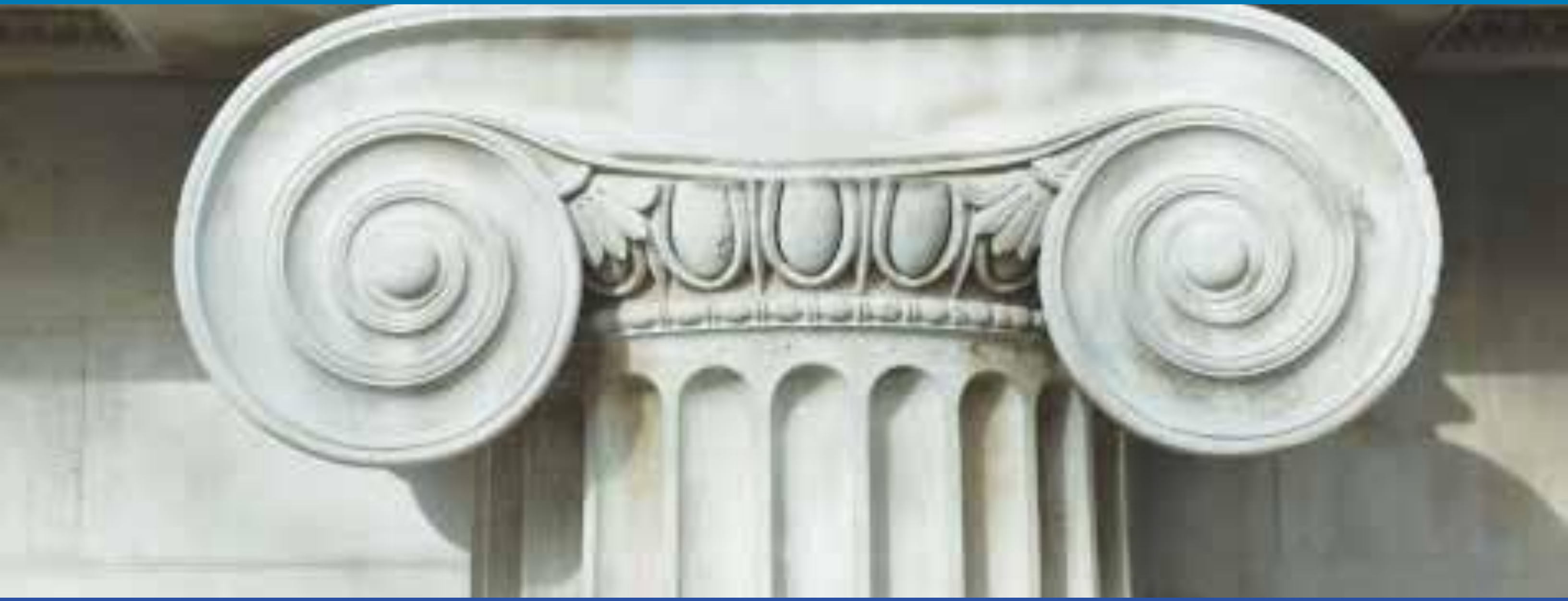
PENTEGRA TECH TIPS



New RMD Rules to Live By

Just when we had figured out the required minimum distributions (RMDs) rules for retirement plan participants—Congress changed them—again! Under the SECURE Act 2.0 of 2022 (SECURE 2.0) there are no less than six changes to RMDs in all.

The most talked about adjustment to the RMD rules is the increased and increasing age for starting RMDs. For 2023 through 2032, the age for starting RMDs is increased to 73 (versus 72). The new age requirement applies to participants attaining age 72 after December 31, 2022. That means plan participants who turn 72 in 2023 (those born in 1951) do not have an RMD due this year. Instead, they will need to start taking RMDs when they reach age 73 in 2024 no later than by their required beginning date (RBD) of April 1, 2025. Similarly, SECURE 2.0 increases the RMD age further to 75 starting on January 1, 2033. The new age applies to participants attaining age 74 after December 31, 2032.

Keep in mind, as well, that some plan designs, pursuant to Treasury Regulations, allow participants who 1) continue to work and 2) are not "five percent owners" (i.e., participants who own five percent or less of the employer) to wait to begin RMDs until April 1 of the year following the later of the calendar year in which the participant

- Attains the RMD age (now 73) and
- Retires from employment with the employer maintaining the plan.

We currently are operating under proposed RMD regulations that are pre-SECURE 2.0. Fortunately, the Treasury Department has indicated final RMD regulations are imminent, and we fully anticipate they will reflect the new SECURE 2.0 language for delayed RMDs.

The next RMD change is exceptionally good news for plan participants. SECURE 2.0 reduces the IRS penalty tax when a participant fails to take an RMD, or takes too little, from 50 percent of the amount not taken to 25 percent—and even 10 percent in certain cases. We can anticipate the IRS will adjust its [Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts] to accommodate the relief.

Section 204 of SECURE 2.0 immediately eliminates the penalty on partial annuitization with RMDs. If a qualified retirement plan participant's account holds cash and an annuity contract, current law requires that the account be bifurcated between the portion of the account holding the annuity and the rest of the account for purposes of applying the RMD rules. This treatment may result in higher RMDs. The new rule permits the account owner to elect to aggregate RMD amounts from the annuity portion and cash portion of the account.

Section 313 of SECURE 2.0 limits the period the IRS may impose penalty taxes on the above mentioned RMD failures. Under current law, the statute of limitations for an RMD failure starts running as of the date the individual files [IRS Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts] to report the violation. Individuals often were unaware of the requirement to file Form 5329. This led to an indefinite period of limitations, potentially causing hardship for taxpayers due to the accumulation of interest and penalties [see Paschall v. C.I.R., 137 T.C. 8 (2011)]. SECURE 2.0 provides that a three-year period of limitations begins when the taxpayer files an individual tax return (Form 1040) for the year of the violation. This change is intended to ensure that there is a reasonable period of limitations for these violations.

Finally, Section 325 of SECURE 2.0 provides equal RMD treatment for Roth IRAs and designated Roth 401(k) accounts by eliminating RMDs from designated Roth accounts for plan participants for taxable years beginning after December 31, 2023. Owners of Roth IRAs have never been subject to RMD rules while alive.

Ultimately, the changes to RMD rules because of SECURE 2.0 are good news for plan participants. The IRS has some homework to accomplish in the form of final Treasury regulations and updated filing forms to facilitate the changes. It's important for plan sponsors to get the new rules right. That's why Pentegra offers a full range of fiduciary services and support, including 3(16) plan administration, to correctly implement the new RMD rules and well as other SECURE 2.0 enhancements.

Contact the Pentegra Solutions Center at solutions@pentegra.com
or 855-549-6689 for expert guidance on how to make the most of the new rules.