

The SECURE 2.0 Act and You:

How New Legislation Is Enhancing Retirement Planning

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In 2019, Congress passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act, significantly reshaping the retirement landscape for millions of Americans for the first time in many years. The SECURE 2.0 Act was enacted soon after in 2022, expanding upon and enhancing the original legislation. Since its passage, several measures of the SECURE 2.0 Act have already been rolled out, while others go into effect this year. This article will highlight several significant provisions of the SECURE 2.0 Act and briefly explain how they may impact those planning for, or already in, retirement.

Required Minimum Distributions

Participants of traditional tax-deferred retirement accounts such as IRAs and 401(k) accounts must take required minimum distributions (RMDs) upon reaching a given age. For nearly 40 years, that age was 70½. It increased to 72 with the 2019 SECURE Act, and the SECURE 2.0 Act pushed it back further still. Today, individuals born between 1951 and 1959 must begin taking RMDs at age 73, and at age 75 for those born in 1960 or after. This allows the funds to remain in the account for additional growth potential and greater flexibility of withdrawals and tax management.

The SECURE 2.0 Act also reduced the penalty for missing an RMD and for taking out less than the required amount. The penalty is now 25% of the shortfall, down from 50% prior to the SECURE 2.0 Act. Furthermore, if a correction is made in a timely manner, the penalty is dropped to 10%.

Changes to Roth Retirement Accounts

- Elimination of RMDs from employer-sponsored Roth plan accounts—Roth retirement accounts differ from traditional retirement accounts in that contributions are made with after-tax funds. While Roth IRAs are not subject to RMDs during the owner's lifetime, prior to the SECURE 2.0 Act, employer-sponsored plans such as Roth 401(k) or Roth 403(b) plans were. Effective 2024, that is no longer the case, allowing Roth funds across plan types to be treated the same and lessening confusion for plan participants.

- Employer contributions—For individuals still working and saving for retirement with an employer-sponsored Roth 401(k) plan, employees can now elect to have employer contributions be made to the Roth side of the plan. While the amount is taxable to the employee in the year the contribution is made, this provision allows employees to accumulate additional Roth savings for tax-free growth and withdrawals in retirement.

- 529 plan rollover to Roth—Concerned that saving for education expenses with a 529 plan will leave unused funds behind after graduation? A highly anticipated provision of the SECURE 2.0 Act aims to alleviate that concern by allowing a lifetime maximum of \$35,000 to be moved to a Roth IRA. This will allow the tax advantages of the 529 plan to be retained while giving a young adult a head start on retirement. Conditions apply, however, so it is imperative to discuss this option with your financial professional before initiating any transfers.

- Opportunities for small businesses and the self-employed - Another change the SECURE 2.0 Act brings is the opportunity for small businesses and

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self-employed individuals to establish Roth SEP IRAs (Simplified Employee Pension) and Roth SIMPLE IRAs (Savings Incentive Match Plan for Employees). Previously, these types of accounts only allowed pre-tax contributions.

The SECURE 2.0 Act also created three tax credit opportunities for small businesses. These aim to incentivize the implementation of a retirement savings plan for employees, have an automatic enrollment feature, and make contributions on behalf of employees. Qualifying for the credits is subject to specific requirements, so it would be wise to consult with a licensed CPA to ensure that all conditions are met in order to attain the credit.

Catch-Up Contributions

The SECURE 2.0 Act contains multiple provisions related to retirement plan catch-up contributions, which allow workers nearing retirement to contribute funds beyond the standard limit.

- Individuals 50 years and older and earning more than \$145,000 in the prior year (adjusted for inflation) must make catch-up contributions to 401(k), 403(b), and 457(b) plans with after-tax dollars to the Roth side of the retirement plan. This does not apply to catch-up contributions to IRAs. Originally set to become effective in 2024, the IRS granted a transition period to allow plans time to make the necessary administrative adjustments. The rule is scheduled to take effect January 1, 2026, for taxable years beginning after December 31, 2025.
- The allowable catch-up contribution limit to IRAs is now indexed for inflation and will adjust annually. This applies to workers aged 50 and above.

- A “super catch-up” contribution for individuals aged 60-63 goes into effect this year. Applicable to employer-sponsored retirement plans only, it allows the participant to contribute 150% of the normal catch-up limit of \$7,500. That means in 2025, individuals in that four-year age range can contribute an additional \$11,250 for a total of \$34,750.

Charitable Giving

For older individuals who are charitably inclined, qualified charitable distributions (QCDs) have been a great way to support a charitable cause while also reducing one’s taxable income. Upon reaching age 70½, individuals can gift directly from their IRA and have the amount count towards their RMD and be excluded from income.

The SECURE 2.0 Act changed the annual allowable QCD amount to now be indexed for inflation (\$108,000 in 2025) and grants a one-time allowance to use \$50,000 of the QCD limit to fund a charitable trust or annuity as an alternative to gifting directly to a charity.

Other Notable Provisions

- A special needs trust that is a beneficiary of an IRA is now considered an eligible beneficiary. Therefore, the inherited assets do not need to be distributed within 10 years, as is required for noneligible beneficiaries.
- Student loan payments may now be treated as elective deferrals for employer matching purposes in workplace retirement accounts. This enables the employee to make payments towards their student loans and receive the employer match contribution to

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their retirement account.

- A surviving spouse who inherits a retirement account can now elect to be treated as if they were the original account owner for required minimum distribution (RMD) purposes. If the deceased spouse was younger, this election allows the surviving spouse to delay taking RMDs until the age when the deceased spouse would have been required to start. In addition, once RMDs begin, the amounts are calculated using the deceased spouse's younger age, which results in smaller annual withdrawals.

These are just a few of the key changes introduced by the SECURE 2.0 Act. While the legislation presents exciting opportunities for nearly all Americans, its complexity necessitates careful interpretation and application. To make the most of these provisions and to avoid unintended consequences, it is important to collaborate closely with a trusted financial advisor and tax professional. With proper planning, the SECURE 2.0 Act can be a valuable tool in helping Americans achieve their long-term retirement goals. ♦

Sources:

1. Fidelity Viewpoints, “SECURE 2.0: Rethinking Retirement Savings,” *Fidelity.com*, May 20, 2025.
2. “H.R. 2954 – Securing a Strong Retirement Act of 2022,” *Congress.gov*, March 30, 2022.
3. Levine, Jeffrey, “SECURE Act 2.0: Later RMDs, 529-to-Roth Rollovers, and Other Tax Planning Opportunities,” *Kitces.com*, December 28, 2022.

About The Author

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