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Retirement Plans

Secure 2.0 'Saver's Match' May Boost Retirement Readiness

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In the next few years, the federal government's efforts to nudge Americans towards greater retirement security — sheathed in the Secure 2.0 Act of 2022 — will go well beyond hikes in catch-up contributions and age limits for required minimum distributions.

Treasury officials are now shaping the Saver's Match program to help low- and moderate-income individuals better prepare for a secure retirement. Financial advisors and other stakeholders have until November 4 to give the Internal Revenue Service input on the Saver's Match program, which could let participants contribute up to $2,000 annually to a 401 (k) type plan or an IRA.

The individual could receive as much as $1,000 annually in a Saver's Match contribution from the U.S. Department of the Treasury. This mechanism would replace the existing Saver's Credit program, a non-refundable tax credit, and kick in for tax years after the end of 2026.

According to the IRS, the amount of an individual's Saver's Match contribution depends on the individual's income or joint income level. For example, for a married individual filing jointly, the Saver's Match contribution phases out completely at a joint income of $71,000 and for a single filer, the Saver's Match contribution phases out completely at an income of $35,500.

Ari Sonneberg, a partner at The Wagner Law Group in Boston, says the Saver's Match contributions could be deposited into an existing or new IRA, or to an employer-sponsored retirement savings plan (such as a 401(k) plan), if the plan permits such contributions. "Only time will tell how effective this provision, set to become effective in 2027, will be in encouraging low-income earners to set money aside for retirement," Sonneberg says.

"Certainly, the cash payment and relative increase in value under the Saver's Match, as compared to the credit provided under the former Saver's Credit, is expected to create a greater and more impactful incentive," he says, adding that the Saver's Credit program was largely ineffective at helping people with low or moderate incomes save for retirement.

Administrative Details in the Works

Sonneberg cautions that the IRS has yet to lay out the administrative details of how the Saver's Match program will work and he expects significant challenges. "That said, there definitely still is ample time to address the potential administrative challenges before the 2027 rollout — hopefully comments recently solicited by the IRS in Notice 2024-65 will help," he adds.

He also notes that employer-sponsored retirement plans are not required to accept Saver's Match contributions. That might save the employer headaches, but employees wanting to tap into the program would have to set up a separate IRA to receive the match, even if they participate in an employer-sponsored retirement plan. This complication could dissuade some people from taking advantage of the mechanism.

Individuals participating in the Saver's Match program should be aware that if they take a distribution from the account to which their Saver's Match contributions were made, any distributed amount that exceeds the amount of the match (for example, resulting from account earnings), could be subject to taxation. "That might be a significant issue for the very population of people that the program was designed to benefit," Sonneberg adds.

The program can help workers more than 50 years of age if they take advantage of it, he says. Yet because low-wage earners tend to be younger, the program's effectiveness as a retirement savings tool is likely greater for younger people.

Use IRA Distributions for Long-Term-Care Insurance

Another upcoming provision of Secure 2.0 will let retirement-plan participants use their distributions to purchase long-term-care insurance contracts. Beginning in 2026, retirement plans may distribute up to $2,500 per year to pay a plan participant's premiums for long-term care insurance. These distributions are exempt from the 10% penalty tax on early distributions.

Sonneberg says the provision applies to both employer-sponsored retirement plans as well as IRAs and is not regulated by age. But this long-term-care provision, "by its nature, it is something that would likely be of greater interest to an older demographic — those between 50 and 60," he says. As the provision doesn't kick in until the end of 2025, "it is probably not on people's radars at present and we will have to wait to see whether it will be embraced," Sonneberg adds.

Dave Alison, president and founding partner of C2P Enterprise in Ohio, says he doesn't view this option as a major provision of Secure 2.0 since it doesn't eliminate the tax on the withdrawal, just the 10% early withdrawal penalty. At the same time, he urged financial advisors to prepare for the many Secure 2.0 changes coming down the pipe in 2025.

Additional Reading: Slott: Secure 2.0 'Landmines' Ahead

The Secure 2.0 Act of 2022, which took effect on Dec. 29, 2022 contains more than 90 new provisions to promote savings, boost incentives for businesses to set up retirements plans and improve retirement rules.

Keeping Tabs on Inherited IRAs

Alison, who is also founder and CEO of Alison Wealth Management, says financial advisors need to keep an eye on the final federal regulations surrounding required minimum distributions (RMDs) on inherited IRAs.Beginning Jan. 1, 2025, most non-spousal beneficiaries must take an RMD from their inherited IRA if the decedent is of RMD age.

If a retirement plan owner passed away after 2020 and they were past the required beginning date, their beneciary must take a required minimum distribution in Years 1 through 10. In addition, the entire IRA account having to be depleted by the end of the tenth year. "The IRS waived this RMD in 2020 through 2024, but advisors need to look at any of their clients that inherited IRAs since 2020 and determine if they are going to have to take an RMD in 2025," Alison says.

Alison notes that 2025 is also the last year of the tax cuts emanating from the Tax Cuts and Jobs Act of 2017. "And assuming that these tax cuts sunset, many clients will have their retirement plans disrupted because they might find themselves in higher tax brackets or changing things like how they take deductions," he says.

"I know we are busy doing proactive planning to determine how the Tax Cuts and Jobs Act sunsetting provisions will impact each of our clients so that they don't have any bumps in the road when it comes to the retirement income, distribution plan or how they are saving for retirement," says Alison.

He urges advisors to increase their continuing education on tax planning and tax management. "Clients, particularly those that are 55-plus, are definitely in need of proactive tax management in coordination with

their retirement plan," he says. "At the end of the day, taxes are our single largest expense, even in retirement, and there are lots of changes coming this year and next year."

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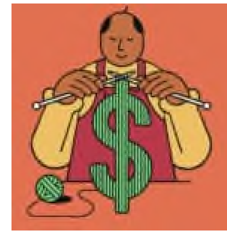

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