MassMutual Ascend Life Insurance Company

Understanding SECURE 2.0 Act

Background

In December 2019, Congress passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act.

SECURE 2.0 Act, passed in December 2022, includes reforms that expand retirement coverage and savings. It also makes changes to:

- Individual retirement accounts (IRAs)
- Defined contribution (DC) plans
- Defined benefit (DB) plans
- 529 plans

Inherited IRAs

SECURE Act (2019) eliminated "lifetime stretch" for most beneficiaries of individual retirement plans (IRAs). This rule requires that the beneficiary withdraw the entire inherited retirement account within 10 years. There are exceptions to the 10-year rule that apply to "eligible designated beneficiaries" as defined below.

Eligible Designated Beneficiaries:

Some beneficiaries, called Eligible Designated Beneficiaries are exempt from the 10-year rule. This exemption includes:

- A surviving spouse
- A disabled or chronically ill person (as defined under the applicable sections of the Internal Revenue Code)
- A child of the decedent who hasn't reached the age of maturity
- A person not more than 10 years younger than the IRA account owner
- An eligible designated beneficiary (EDB) is always an individual. An EDB cannot be a nonperson entity such as a trust, an estate or a charity

Eligible Designated Beneficiaries will need to take annual required minimum distributions (RMDs) based on their own life expectancy and do not fall into the 10-year distribution rule.

Therefore, eligible designated beneficiaries can use the old stretch IRA rules and take RMDs pro-rated based on their own life expectancies. In such cases, RMDs must begin no later than December 31 of the year after the original account owner's death.

However, if the original owner was of RMD age and failed to take the required amount in the year of death, the beneficiary must take the RMD by December 31 of that year or be subject to the same 25 percent excise tax that applies with the 10-year rule. The IRS could, however, waive the tax due to reasonable cause.

The new SECURE 2.0 Act requires most non-spouse beneficiaries who inherit retirement assets on or after January 1, 2020 to withdraw the full account balance within 10 years. Not following these proposed regulations could create substantial tax penalties so it's important to understand how they might impact an inherited IRA.

	Eligible Designated Beneficiary	Designated Beneficiary	Non-Designated Beneficiary
Death Before RMD Age	Beneficiary's Life Expectancy Annual RMDs	10-Year Rule (No Annual RMDs)	5-Year Rule (No Annual RMDs)
Death After RMD Age	Beneficiary's Life Expectancy Annual RMDs	Life Expectancy Annual RMDs & the 10-Year Rule	Ghost Life Expectancy Annual RMDs

Source: www.bit.ly/3rmmYbl

Eligible Designated Beneficiaries: non-minor children, minor grandchildren, eligible beneficiaries who lose status (e.g. minors who become adults), and any successor beneficiary (e.g. inheriting an inherited IRA).

Non-Designated Beneficiaries: estates, charities, and certain types of trusts.

Inherited IRA Distributions

SECURE 2.0 Act (effective January 1, 2023) clarifies that the Inherited IRA Beneficiary must take out at least the required minimum distribution each year, with a full payout by the tenth year. Luckily, anyone who inherited an IRA before the clarification (January 2023) will not be penalized for failure to take out the required minimum distribution (RMD).

The distribution requirements are dependent on the deceased IRA owner's age and the type of beneficiary (eligible or non-eligible).

Distribution Strategies:

Traditional IRA: The shorter (10-year) distribution period could result in unanticipated and and potentially large tax bills for beneficiaries who are not Eligible Designated Beneficiaries who inherit high-value traditional IRAs.

Roth IRA: The beneficiary of a Roth IRA and its tax-free distributions might want to leave the account intact for up to the full 10 years to benefit from the potential tax-free growth for as long as possible.

- Roth IRAs inherited after 2019 will be treated as having been inherited before the original owner's RMD age. For designated beneficiaries, this means that the account will still need to be fully distributed in 10 years, but there will be no annual RMDs.

Inherited IRA Examples

Scenario 1 — Single Life Expectancy Payments

Decedent date of death: 8/1/2023
Decedent age at time of death: 65
Beneficiary age: 62
Relationship to decedent: Sister

Under the SECURE Act, the beneficiary would be able to take payments under their own unrecalculated life expectancy and does not need to have all funds paid out within 10 years from date of death. The reason they are able to avoid this time limitation is due to the exemption provided for a beneficiary who is not more than 10 years younger than the decedent.

Scenario 2 — Annual Required Minimum Distributions (RMD) Payments with 10 year rule in effect

Decedent date of death: 8/1/2023
Decedent age at time of death: 75
Beneficiary age: 40
Relationship to decedent: Son

Under the SECURE Act, the beneficiary would need to take annual RMDs since the decedent had reached their required beginning date for RMDs. These annual payments can be based on the unrecalculated life expectancy of the beneficiary. Additionally, since the beneficiary does not qualify for an exemption to the 10-year rule all funds must be paid out within that time period.

Scenario 3 — No RMD Payments but 10 year rule in effect

Decedent date of death: 8/1/2023
Decedent age at time of death: 62
Beneficiary Age: 35
Relationship to decedent: Son

Under the SECURE Act, there are no annual RMD payments required since the decedent had not reached their required beginning date for RMDs. Additionally, since the beneficiary does not qualify for an exemption to the 10-year rule all funds must be paid out within that time period.

MassMutual Ascend accepts inherited business

If you have a client who is a non-spousal beneficiary, they may have the option to transfer the death benefit into an inherited annuity contract. This approach can help spread out their tax liability, while allowing the inherited assets to keep growing.

As a non-spousal beneficiary, clients have the option to transfer the death benefit amount into an inherited annuity contract from MassMutual Ascend Life Insurance Company. Inherited contracts may provide a way for your clients to spread out the tax liability, while allowing their inheritance to continue growing.

What are the benefits of an inherited annuity contract?

Continue the annuity's growth

By placing the death benefit into an inherited contract, assets may continue to grow, which can provide a significant boost to your inheritance over time.

Spread income tax impact over time

Taking the death benefit as a lump sum payment, could leave a significant tax burden. By opening an inherited contract, money will not be taxed until a distribution is taken.

Designate beneficiaries

One day your client can pass their loved one's generosity on to their heirs.

Required Minimum Distribution

Required Minimum Distributions (RMDs) are mandatory withdrawals required by the government to be taken from tax-deferred retirement accounts, including Traditional IRAs, SEP IRAs, and SIMPLE IRAs. The same RMD rules apply to workplace accounts such as 401(k)s and 403(b), though these accounts generally allow you to defer distributions while you are still working. Meanwhile, Roth IRAs do not require RMDs for the original account owner.

Effective January 1, 2023

SECURE 2.0 Act Key Changes

- RMD required age increases from 72 to 73 in 2023 and increases again to age 75 in 2033.
- As of January 1, 2024, RMDs will no longer be required from Roth accounts held within employer retirement plans.

Reduced Penalty

Under the old rules, if a retiree missed the RMD deadline, they would incur a penalty of 50% of the amount not taken on time. Beginning in 2023, that penalty has been reduced in SECURE 2.0 Act to 25% and may be reduced to 10%, if corrected within two years.

Roth 401(k) and 403(b) Retirement Accounts

Starting in 2024, investors with a Roth 401(k) or Roth 403(b) will no longer need to take RMDs.

Note: However, if an investor is 73 years or older in 2023, they still are subject to Roth RMDs in 2023.

RMD Example

Scenario — Julia turned age 72 on July 11, 2023 and has a Traditional IRA.

Due to the changes afforded by the SECURE 2.0 Act, she will begin taking RMDs for 2024 when she reaches age 73 (rather than at age 72 as stated in the original SECURE Act).

Also, the SECURE 2.0 Act allows a delay in her first RMD. Julia's first RMD, for 2024, can be delayed until April 1, 2025, but if she delays then she will need to take two RMDs in 2025—both the (delayed) 2024 RMD and the 2025 RMD, which is due by December 31, 2025.

SECURE 2.0 Act Timeline

AGE 70½

Retiree birth date before **July 1, 1949**

When the RMD rule was initially introduced, distributions were required to start at age 70½.

AGE 72

Retiree birth date **July 1, 1949 - 1950**

Under the previous SECURE Act, RMDs started the year savers turn 72. Retirees who turn age 72 in 2023, have until December 31, 2023, to take their first RMD. However, there is a one-time IRS option to delay that first RMD until April 1, 2024.

Under SECURE 2.0 Act those turning 72 in 2023 can now hold off on taking the first RMD until December 31, 2024.

There is also a one-time IRS option to delay that first RMD to no later than April 1, 2025. If this option is elected and the retiree waits until April 1, 2025, they are required to take two distributions that year, satisfying the first and second RMD.

Note: Anyone that turned 72 on or before December 31, 2022, is not affected by SECURE 2.0 Act changes and needs to continue taking their RMDs as scheduled.

AGE 73

Retiree birth date **1951-1959**

Under SECURE 2.0 Act retirement savers who turn 72 on or after January 1, 2023, need to begin taking RMDs at age 73.

AGE 75

Retiree birth date **1960 or later**

Under SECURE 2.0 Act the starting age for RMDs will rise again to age 75 in 2033.

Source: www. bit.ly/3LuFV2p

Additional Information

Auto-Enrollment: Employers starting new 401(k) and 403(b) plans are required to automatically enroll eligible employees, starting at a contribution rate of at least 3% in 2025.

Auto-transfer: Retirement plan providers can now offer the ability to transfer an employee's low balance retirement accounts to a new plan when they change jobs.

Catch-up contributions: Starting in 2025, ages 60 to 63 can contribute $10,000 annually or 50% more than their regular catch-up contribution (whichever is greater) to their 401(k), 403(b), governmental 457(b) plans, and IRA accounts (indexed for inflation after 2025).

Note: Ages 50 or older with incomes of $145,000 and over (during the previous calendar year) are required to make their catch-up contributions to a Roth account in after-tax dollars. Individuals earning $145,000 or less, adjusted for inflation going forward, will be exempt from the Roth requirement. For SIMPLE plans, the catch-up contribution for the same age group will be the greater of $5,000 or 50% of the catch-up contribution limit.

Required Minimum Distributions: Starting in 2024, RMDs will no longer be required from Roth accounts in employer retirement plans.

529 plan assets: After 15 years, can be rolled over to a Roth IRA for the beneficiary. The rollover is treated as a contribution towards the annual Roth IRA contribution limit.

Rollover available if these conditions are met:

- 529 must have been maintained for 15 years
- May not exceed the aggregate of contributions and earnings in the account more than five years before the rollover
- May not exceed $35,000 lifetime limit
- The Roth IRA owner must have earned income at least equal to the amount of the rollover

Defined contribution retirement plans will now be able to add an emergency savings account associated with a Roth account for non-highly compensated employees.

Note: Balances in an emergency savings account must be eligible for distribution at least once per month.

Pre-59½ distributions: New exceptions to the 10% additional tax for early withdrawals.

Note: Withdrawals covered by these exceptions can be repaid within three years to an eligible retirement plan. If repayment is made after the year of the distribution, an amended return would have to be filed to obtain a refund of any taxes paid.

Six new distribution exceptions include:

- Certain emergency expenses up to $1,000 (effective 2024)
- Pension-linked emergency savings account (effective 2024)
- Qualified disaster recovery (effective retroactively for disasters that occurred on or after January 26, 2021)
- Qualified long-term care (effective December 29, 2025)

Student loan payments: Can be "matched" by employers as a payment to a retirement account. In order for a 401(k), 403(b), governmental 457(b), or SIMPLE IRA to "match" a student loan payment, the matching contributions must be:

- Available to participants eligible to defer money and receive matching contributions
- Matched at the same rate as matching contributions on elective deferrals
- Subject to the same vesting schedule as the matching contributions on elective deferrals

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B6080423NW 12/23