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Big Changes to Retirement Plans Including 401K Catch-up Contributions

BY SCOTT C. CASHMAN • AUGUST 10, 2023

The [SECURE Act 2.0](#) brings a slate of changes to retirement accounts and the way workers save for retirement. A summary of the Act can be found on the [US Senate Finance Committee website](#).

Among the many changes are the following highlights:

- **Mandatory Automatic Enrollment** – Beginning after December 31, 2024, most employers will be required to automatically enroll employees in new 401(k) and 403(b) plans unless the employees opt out.
- **Required Minimum Distribution Changes** – Currently, plan participants must begin taking required minimum distributions (RMDs) the year they turn 72; however, the age for beginning RMDs increased from age 72 to age 73 in 2023 and will increase to age 75 in 2033.
- **Penalty-Free Emergency Withdrawals** – Currently, there is a 10% penalty on early withdrawals made by participants under the age of 59 1/2, but, beginning on December 31, 2023, there will be an exception to the 10% penalty for up to \$1,000 per year withdrawal for unforeseeable or immediate personal or family emergencies for such participants. There will also be a penalty exception for withdrawals made to escape domestic abuse beginning in 2024, and exceptions will also be made for withdrawals made by those with a terminal illness effective immediately.
- **Increased Catch-up Limits to 401K** – In 2023, the contribution limits for 401(k), 403(b) and most 457 plans increased from \$20,500 to \$22,500. Participants aged 50 or over can contribute an additional \$7,500 in 2023 (up from \$6,500 in 2022). In addition, for participants aged 60-63, the retirement plan catch-up contributions are increased in 2025 to the greater of \$10,000 or 50% more than the regular catch-up amount in 2025 (indexed for inflation after 2025).
- **Big Change for Those Making Over \$145,000** – For plan years beginning in 2024, participants who are considered “high earners” must designate catch-up contributions as Roth contributions. High income participants are defined as those participants whose wages for the previous year exceed \$145,000 (adjusted for inflation after 2024).

This will be a big change to the way many older participants are saving for retirement and will result in a higher current tax bill since Roth contributions are made after-tax. Currently, around [14% of plan participants take advantage of the catch-up provisions](#) according to a study by the investing giant, Vanguard. A higher current tax bill may cause some participants over age 50 to rethink making catch-up contributions.

- **529 Savings Plan Incentive** – Beginning in 2024, SECURE 2.0 allows those beneficiaries with long-term 529 accounts (i.e., those open for more than 15 years) to rollover up to \$35,000 to a Roth IRA over the course of the beneficiary's life (subject to annual contribution limits). The idea is to encourage families to save for college using a 529 without the worry of being penalized if their beneficiary finds alternative ways to pay for college.

SECURE 2.0 is certainly geared toward assisting families in saving more toward retirement and education as well as assisting those participants through life challenges. To make the most of your retirement savings, it's important to implement the appropriate tax planning strategies for your personal or family situation. Contact your Bowditch tax planning attorney to learn more.