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Big Roth Changes

The budget legislation that Congress passed just before Christmas included a slew of tweaks to the rules for retirement plans, collected together in SECURE Act 2.0. In particular, there were important enhancements for the Roth accounts that are allowed in company retirement plans. One reason that the Congress favors Roth accounts is that they are funded with after-tax money, which gets scored as a revenue increase when the Congressional Budget Office forecasts the impact of legislative changes. In the long run, Roth accounts will have negative effects on revenue, as most distributions will be tax free. However, the "long run" is outside the 10-year window used to evaluate budget impacts.

Matching funds. Until now, when an employee deferred money into a Roth 401(k) account, the employer match would go into a regular tax-deferred account—pre-tax money, in other words. Starting this year, the employer match may instead go into the Roth account. If that happens, the employee will have to pay income tax on the employer match.

No RMDs. Unlike the traditional IRA, there are no Required Minimum Distributions (RMDs) from a Roth IRA. Not so for the Roth accounts in 401(k)s, for which RMDs are still mandated. That changes in 2024, when the RMDs will be dropped for all Roth accounts.

Roth SIMPLEs and SEPs. For smaller employers, SIMPLE and SEP retirement plans have been a relatively easy and inexpensive approach to having a company retirement benefit. These plans are now allowed to offer the Roth account option as well.

Catch-up contributions. Taxpayers who are 50 and older are allowed larger "catch-up" contributions to their retirement plans. Starting in 2024, those who have higher incomes will be required to make catch-up contributions in Roth accounts instead of tax-deferred accounts.

529 plan rollovers to Roth IRAs. It's not certain how many 529 plan accounts end up over-funded, with money left over after the beneficiary is finished with education. In that happy circumstance, beginning in 2024 those funds may be rolled into a Roth IRA for the beneficiary. However, restrictions apply. The 529 account must have been in place for at least 15 years, the annual rollover cannot exceed the Roth IRA contribution limit, and the total lifetime