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SECURE 2.0 – What You Need to Know Required Minimum Distribution Rules

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, passed in 2019, included numerous changes to the rules governing retirement plans with the goal of increasing access and savings for American workers. Building upon the success of SECURE, SECURE 2.0 was introduced to further enhance retirement security. Both acts included provisions addressing required minimum distributions (RMD) which are outlined below.

The Introduction of RMDs

The requirement for individuals to take RMDs from retirement accounts originated with the Tax Reform Act of 1986. The aim was to ensure that retirement accounts were used primarily for retirement income rather than as tax-advantaged savings vehicles for future generations.

Initially, the RMD rules were relatively simple. They required individuals to begin taking withdrawals from their retirement accounts by the age of 70½. The RMD amount was calculated using the account balance and the individual's life expectancy based upon tables provided by the IRS. The rules attempted to strike a balance between allowing retirees access to their savings while preventing excessive withdrawals that might deplete their accounts prematurely.

The Modern Era of RMDs

The first significant updates to the RMD rules came with the passage of the SECURE Act in 2019. One of the most notable changes was the increase in the age at which RMDs must begin. Under the SECURE Act, RMDs had to begin at age 72 instead of 70½, reflecting the growing trend of individuals working and saving for retirement beyond traditional retirement ages.

RMD Changes Under SECURE 2.0

There were three major changes to the RMD rules under SECURE 2.0. The first is that the age for RMDs was increased to 73, offering participants an additional year to increase the savings in their tax-free retirement accounts and avoid a taxable distribution. Then, starting in 2033, SECURE 2.0 again pushes the age at which RMDs must start to 75. The chart below shows the applicable age at which RMDs must begin based upon the participant's date of birth:

Birth Date	Applicable RMD Age
Before July 1, 1949	70 1/2
July 1, 1949 - December 31, 1950	72
January 1, 1951 - December 31, 1959	73
January 1, 1960 or later	75

The second significant change is the treatment of Roth amounts in 401(k) and 403(b) accounts. Since their inception, Roth IRAs have been exempt from the RMD rules for living individuals. Effective for 2024, SECURE 2.0 extended this exemption to Roth amounts held in 401(k) and 403(b) plan accounts. When determining RMDs from these plans only the non-Roth portion of the account will be taken into consideration.

The last significant change was a reduction in the penalty for failing to take a RMD when due. Failure to take a RMD has traditionally resulted in an excise tax equal to 50% of the RMD that wasn't taken. SECURE 2.0 reduces the excise tax from 50% to 25%. If the failure is corrected in a timely manner, the excise tax is further reduced to 10%.

Company Owner vs. Employee RMD Rules

A participant who owns greater than 5% of the business must take RMDs when they reach the applicable age. However, participants who have 5% ownership or less can delay RMDs until retirement. If a participant who owns 5% or less of the business continues to work for the company, even part-time, RMDs are not applicable. While the SECURE Act and SECURE 2.0 changed several provisions, this exemption for actively employed participants remains no matter the age of the employee.

Should you have any questions about these rules or the impact on your plan, please contact your Benchmark RPS representative at your convenience.

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Setting the standard for service, expertise, and cost-effective retirement plan solutions in the TPA industry.