UNITED METHODIST FOUNDATION OF MICHIGAN

A massive new retirement savings package was signed into law last December. The law is commonly known as SECURE 2.0 or the SECURE 2.0 Act. Several provisions have already begun, but many others do not take effect for another year or two. More than ninety provisions are included in the overall plan.

SECURE 2.0 has implications for individual retirement planning and how people will make charitable gifts to the church and beyond. Larger catch-up provisions for those close to retirement, higher age limits for required minimum distributions from traditional IRAs, and more opportunities to protect against running out of money in later years are all integral to this major legislation. Let's break down some of the key elements.

The required minimum distribution (RMD) beginning age has risen from 72 to 73 for owners of traditional IRAs and other plans, like the United Methodist Personal Investment Plan (UMPIP) administered by Wespath. By 2033, the age will rise to 75. As a result, retirees can gain a few more years of tax-deferred growth. One possible result of this age increase is a delayed interest in people making qualified charitable distributions (QMDs) from their retirement plans to the church, even though QMDs still may begin after one reaches 70½ years of age. On the other hand, if they delay taking their RMD until an older age, they may have more incentive to seek alternatives to paying income tax on their RMDs. Currently, a retiree may give up to $100,000 per year from an IRA or other qualified plan to charities. However, this amount will be indexed for inflation beginning in 2024.

SECURE 2.0 also allows for a highly requested option to use a one-time qualified charitable distribution of up to $50,000 to fund a charitable gift annuity or charitable trust, often referred to as a split-interest agreement. Nonprofits and the church will benefit from this possible funding method for these types of gifts. Promotion of planned giving through deferred gifts to the local church is even more important now as givers think strategically about their legacy gifts.

These giving methods afford a win-win scenario — the giver and the nonprofit benefit from this generosity. Giving through an IRA or other defined contribution retirement plan satisfies both our spiritual discipline of giving and our legal RMD objectives. To be clear, these qualified charitable distributions count towards the required minimum distribution but are not included in the gross income of the IRA owner. Better yet, the IRA owner does not have to itemize to utilize this giving method.

In addition to these giving opportunities, which will benefit well-positioned churches and nonprofit organizations, SECURE 2.0 has numerous other allowances that directly affect a pastor's retirement planning. For instance, the law enhances the catch-up contributions that pastors can make to employer-sponsored retirement plans. Beginning in 2024, leftover 529 plan savings, up to $35,000, can be rolled into a Roth IRA penalty-free as long as the 529 plan has existed for at least fifteen years. While hardship loans from retirement accounts have already been a last-resort possibility for most pastors, the list of exemptions will be expanded to include long-term care premiums and some emergency expenses. For retirees, the penalties for missed RMDs are dropping. Formerly, taxpayers were hit with a penalty equal to 50% of the amount that should have been withdrawn. SECURE 2.0 drops the penalty amount to 25% — and even lower to 10% if the necessary funds are withdrawn prior to the end of the second year following the year it was due.

Overall, SECURE 2.0 has been a topic of considerable conversation between charitably minded individuals, their trusted financial advisors, and the development staff of their favorite nonprofit. Local churches may also seize this opportunity to educate congregations about our call to be generous stewards through creative and prudent means.

To learn more about SECURE 2.0, feel free to contact the United Methodist Foundation of Michigan. This article is provided for educational purposes only and is neither intended to be nor should be construed as legal, accounting, tax, investment, or financial advice.

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