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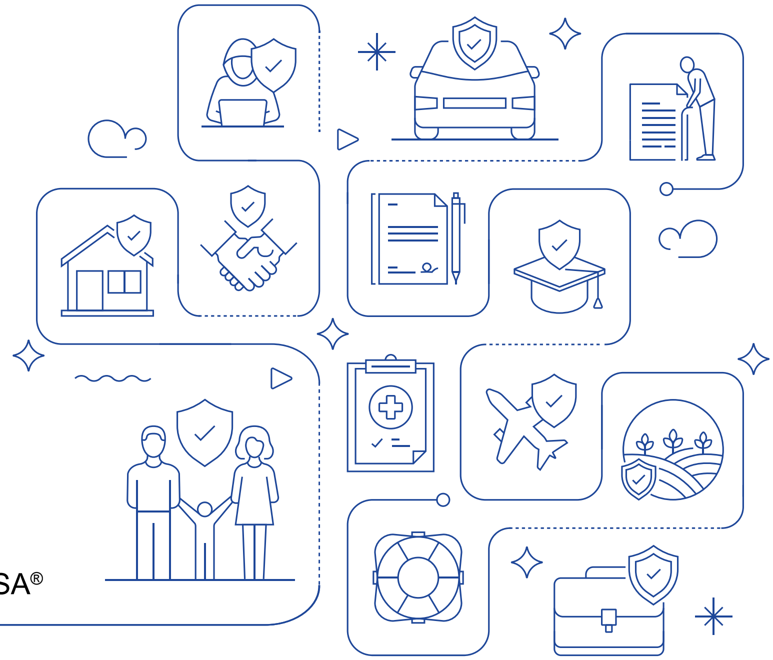

7 Key Changes That Impact Retirement Planning in 2025

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The landscape of retirement planning is continuously evolving, and significant changes are set to take effect in 2025. It's important for you to be aware of these updates to better assist your clients on their journeys to and through retirement. From RMD clarifiers and new opportunities to boost pre-retirement contributions to landmark legislation to put more money in the pockets of America's seniors, here are seven critical updates that go into effect beginning in 2025. Understanding these changes and how to leverage them will be crucial for your clients' long-term income planning success and your own as a trusted financial professional.

RMD Game Changers

#1 – The At Least as Rapidly Rule Wins

The Final RMD regulations, released in July 2024, provided much-needed clarity regarding the initial vague language of the SECURE 1.0 Act related to the implementation of the 10-year rule. These regulations confirm that both the "at least as rapidly" rule and the 10-year rule apply to designated beneficiaries of decedents who passed on or after January 1, 2020, provided that the decedent had already reached their Required Beginning Date (RBD).[1] The Required Beginning Date is generally April 1st of the year following the year the account owner turns 73. However, certain qualified plan participants who continue to work may be able to delay RMDs to April 1st of the year they retire from that employer's plan, if later, but only if the plan allows it.[2]

How did we get here? Under the original SECURE Act, non-spousal beneficiaries of retirement and IRA account owners who died after 2019—and who didn't qualify as "eligible designated beneficiaries" (EDBs)—were required to withdraw the entire account balance by December 31 of the 10th year following the year of death. However, the Act was silent on how the decedent's age and RBD status would affect the application of the 10-year rule.[3] The subsequent proposed RMD regulations addressed this ambiguity by adopting the long-standing interpretation that non-EDBs (NEDBs) inheriting from decedents who had begun RMDs must take annual distributions in years 1 through 9, with the remaining balance distributed by December 31 of year 10.[4] Essentially, once RMDs have commenced for the account owner, they cannot stop—even for the beneficiary.

In Practice:

With this clarity now firmly established, it is crucial to determine both the age of the original account owner at the time of their death and their relationship to your beneficiary client. These factors are key to accurately applying the inherited IRA rules and ensuring full compliance with the regulations. For additional support in navigating these complex rules, use our Beneficiary Distribution Quick Reference Guide and Lifetime RMD Quick Reference Guide . These resources will provide valuable clarity and enhance your confidence in guiding clients through these nuanced requirements.

#2 – 2025 and Beyond, No More RMD Penalty Waivers

Amid the confusion regarding the application of the 10-year rule for beneficiaries of decedents who passed after reaching their required beginning date (RBD), the IRS issued a series of notices providing penalty relief. These notices waived the excise tax for affected beneficiaries who failed to take their annual required minimum distributions (RMDs), because two conflicting interpretations of the rule existed. Specifically, the IRS waived penalties for NEDBs of decedents who died between 2020 and 2023 after reaching their RBD.[5]

With the release of the final RMD regulations, the IRS has clearly established its position: annual RMDs are mandatory during the first nine years of the 10-year period. Additionally, waivers for non-compliance will no longer be allowed, and beneficiaries will not receive any extensions of the original 10-year deadline.

For example, Susan inherited her 77-year-old grandmother's IRA in 2022. While she did not take annual RMDs in 2023 or 2024, she qualifies for the IRS penalty waiver and will not face the 25% excise tax for those years. Moving forward, however, Susan must begin taking annual RMDs starting in 2025 and continue through 2031, ensuring the remaining balance is fully distributed by December 31, 2032. To calculate her RMDs, Susan will use her single life expectancy from Table I in IRS Publication 590-B, based on her age in 2023 (the year after her grandmother's death), subtracting 1 for each subsequent year.

In Practice:

When assisting impacted NEDBs of IRA or plan owners who passed away between 2020 and 2023, ensure they understand that annual RMDs must begin in 2025 and continue thereafter. Emphasize that the original 10-year distribution period remains intact and has not been extended, making timely compliance crucial to avoid costly penalties.

#3 – Beware of RMDs and Conversions: Critical Clarifier

The final RMD regulations clarified an important rule that may have been misunderstood by some individuals, despite its practical implications. In any year when an RMD is due, a Roth conversion can only occur after the full RMD has been satisfied. While this is often considered common knowledge, the regulations emphasized a crucial detail: if an individual owns multiple IRAs, the total aggregated RMD across all those accounts must be satisfied before a Roth conversion or 60-day rollover can be completed from any of the accounts.[6]

This clarification highlights the significance of careful planning when managing IRA accounts. Consider the following example: Francis, a 74-year-old IRA owner, has two IRAs. His total Required Minimum Distribution (RMD) for 2025 is $35,000—$20,000 from IRA #1 and $15,000 from IRA #2. In 2025, Francis withdraws $50,000 from IRA #1. He uses $20,000 to meet the RMD for that account and converts the remaining $30,000 to his Roth IRA.

Here's the issue. Because Francis did not satisfy the aggregate RMD of $35,000 across both IRAs before making the conversion, only $15,000 of the conversion is valid. The remaining $15,000 must be removed as an excess contribution to avoid a 6% penalty.

In Practice:

Be proactive by ensuring all IRAs owned by the client are accounted for and that the total RMDs have been fully satisfied before proceeding with any Roth conversions or rollovers. Encourage clients to set up automatic RMD payments earlier in the year to streamline compliance and avoid oversight. Since Roth conversions are often more advantageous later in the year when the client's tax picture is clearer, this timing strategy can optimize their tax outcomes. Additionally, encourage your clients to consult with their tax professionals to ensure all actions align with their broader financial and tax planning goals.

Enhanced Opportunities to Save

#4 – Super Catch-Up Contributions

Beginning in 2025, SECURE 2.0 introduced higher catch-up contributions for eligible participants aged 60–63 in 401(k), 403(b), and governmental 457(b) plans.[7] For 2025, the increased catch-up contribution limit is the greater of $10,000 or 150% of the regular age 50 catch-up limit, adjusted for inflation. With the standard catch-up limit for those under 60 set at $7,500, the super catch-up contribution for participants aged 60–63 will rise to $11,250.

It is important to note that employers are not required to offer catch-up contributions, so employees should confirm availability with their specific plan.

SIMPLE IRA plans also permit super catch-up contributions for participants aged 60–63. For 2025, the maximum catch-up limit is the greater of $5,000 or 150% of the regular age 50 catch-up limit ($3,500), resulting in a super catch-up contribution of $5,250.

In Practice:

Encourage eligible clients to take full advantage of their super catch-up contributions, as this is a valuable opportunity to significantly boost their retirement savings during these crucial years. Make sure clients verify whether their plan allows for catch-up contributions and discuss how this strategy aligns with their overall retirement goals. Remember, once a participant turns 64, they must revert to the lower age-50 catch-up contribution limit.

The Latest Social Security and Medicare Developments

#5: Landmark Repeal of WEP and GPO

On January 5, 2025, President Biden signed the Social Security Fairness Act (H.R. 82) into law, repealing two long-standing provisions—the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO)—that, for nearly four decades, reduced Social Security benefits for certain federal, state, and local employees with pensions from non-Social Security-covered earnings. Impacted groups include police officers, firefighters, teachers in certain states, Civil Service Retirement System (CSRS) annuitants, and some foreign pension recipients.

The WEP, enacted as part of the Social Security Amendments of 1983, altered the Primary Insurance Amount (PIA) formula for non-covered workers with less than 30 years of coverage, reducing Social Security retirement and disability benefits for workers with pensions from non-covered government employment. The GPO, implemented in 1977, reduced or eliminated spousal and widow(er) Social Security benefits for pension recipients from non-covered employment, often significantly impacting auxiliary benefits.[8]

The Act is retroactively effective as of January 1, 2024, requiring the repayment of Social Security benefits reduced under WEP and GPO in 2024. However, as of this writing, the Social Security Administration (SSA) has not released details on how repayments will be processed. Refer to SSA's consumer information page on the Social Security Fairness Act for the latest information. Our March whitepaper will be dedicated to the Social Security Fairness Act and its implications in your retirement planning conversations with your clients.

In Practice:

The repeal of these controversial provisions is welcome news for those whose Social Security benefits were reduced or eliminated by either WEP or GPO. Impacted beneficiaries should ensure their direct deposit and address information is up to date to facilitate the processing of refunds. According to President Biden's statement during the bill signing on January 5th, refund amounts for offsets are expected to be issued as a lump sum.

This refund could affect the amount of federal income tax owed on Social Security benefits in 2025, as well as overall taxable income. Stay tuned for more details in March as we provide an in-depth analysis of this landmark legislation and its implications.

#6 – SSA Transitions Walk-In Visits to Field Offices to Appointment Only

To improve service delivery and reduce waiting times, customers must schedule appointments for in-person service at one of the Social Security Administration's 1,250 field offices nationwide, beginning January 6, 2025.[9] Many services, such as applying for most benefits (excluding survivors or children's benefits), updating direct deposit or address information, and requesting replacement Social Security or Medicare cards, can be completed online.

For matters that cannot be resolved online, customers can schedule an appointment by contacting their local SSA office or calling the National 800 number at 1-800-772-1213. The SSA's pilot program for testing the new appointment-only program, tested in nearly 400 field offices in late 2024, successfully reduced wait times, with a national goal of limiting 800-number wait times to 15 minutes in 2025.

Exceptions remain for vulnerable populations, military personnel, individuals with terminal illnesses, or those requiring urgent or specialized assistance, who may still access walk-in services. Additionally, SSA offices with minimal waiting times will continue to accommodate walk-in customers.

In Practice:

Inform clients about the new protocol requiring appointments for visits to local SSA field offices. Encourage them to handle most transactions online, as it is often more convenient and saves time. Most application filings may be easily handled online. Encourage your clients to use this Checklist to gather important information before beginning the online process.

#7 Inflation Reduction Act caps Part D Drug Annual Costs to $2,000

Beginning in 2025, a significant cost-saving change to the Medicare Part D program takes effect: a $2,000 annual cap on out-of-pocket costs for covered prescription drugs will apply to an enrollee's Part D plan. The $2,000 cap applies whether prescription drug coverage is through a standalone drug plan or through a Medicare Advantage plan. Also in 2025, Medicare Part D plans will allow enrollees to pay out-of-pocket costs in monthly installments to better manage monthly cash flow.[10]

Introduced under the Inflation Reduction Act of 2022, this provision aims to provide much-needed financial relief to Part D beneficiaries who, before 2025, were potentially exposed to a maximum annual out-of-pocket cost of $8,000. Although, according to the Centers for Medicare and Medicaid Services (CMS), the average out-of-pocket cost in 2024 for Part D coverage was $3,300 to $3,800.[11] Even still, the new $2,000 annual cap in 2025 presents significant savings to the average enrollee.

Understanding the finer details of this change is crucial. First, the $2,000 cap applies only to covered drugs within the plan's formulary, making it essential for enrollees to review their plan's formulary carefully and ensure their medications are covered. Beneficiaries receive an Annual Notice of Change (ANOC) each September, detailing cost and coverage adjustments for the upcoming year. With the introduction of this cap, some insurers may offset costs by raising premiums or revising their formularies and excluding previously covered drugs, underscoring the importance of comparing plans to ensure the best coverage and value.

Second, it is important to understand the phases of prescription drug coverage. In 2025, there are three stages of Part D coverage. The Part D deductible phase, capped at a maximum of $590 in 2025 and applied to the$2,000 cap, must be met before entering the initial coverage stage. During the initial coverage stage, enrollees will pay co-pays and co-insurance on their medication(s); keep in mind only drugs covered under the plan's formulary are applied toward the deductible and the out-of-pocket maximum. Once the enrollee has reached the $2,000 cap, the catastrophic stage is reached, and the enrollee pays nothing for covered drugs for the remainder of 2025.[12]

In Practice:

Encourage your clients to educate themselves on the changes to Part D prescription drug plan coverage in 2025. More importantly, ensure they understand that only covered drugs within their plan will count toward meeting the $2,000 cap. Going forward, enrollees should carefully evaluate changes to their prescription drug plans as carriers may change covered drugs or raise premiums to help offset the costs. To enroll in the Medicare Prescription Payment Plan, your client should contact their insurance carrier by phone or enroll online at the carrier's website.

Sources:

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[7]SECURE 2.0 Sec. 109

[8]https://www.ssa.gov/policy/docs/program-explainers/government-pension-offset.html

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