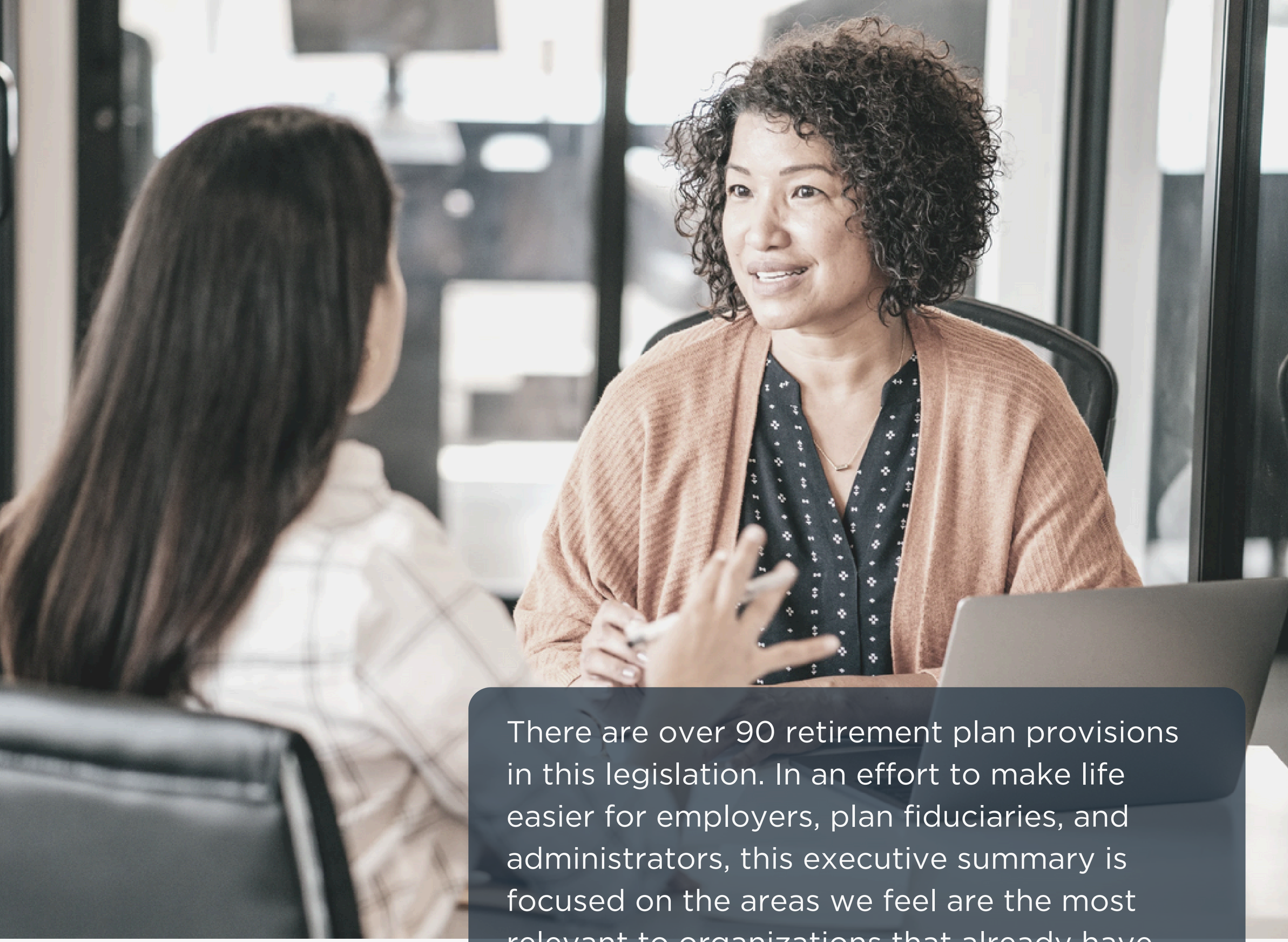
SECURE 2.0 ACT

What Employers Need to Know

Introduction

SECURE 2.0 Act became law as part of the Consolidated Appropriations Act of 2023. SECURE 2.0 is designed to accomplish four primary goals:

1. Increase the availability of retirement plans
2. Help people save more
3. Streamline retirement plan rules
4. Help workers preserve income in retirement



There are over 90 retirement plan provisions in this legislation. In an effort to make life easier for employers, plan fiduciaries, and administrators, this executive summary is focused on the areas we feel are the most relevant to organizations that already have retirement plans in place.

EFFECTIVE 2023

Roth Employer Contributions (optional)

- Under current law, employers could not provide matching or nonelective (“profit sharing”) contributions in their retirement plans on a Roth basis. They had to be pre-tax.

- The Act allows plan sponsors to provide participants with the option of receiving employer contributions on a Roth basis. These contributions would be included in the employee’s taxable wage income and must immediately be 100% vested.

EFFECTIVE 2023

Small Incentives for Contributing to a Plan

- Before SECURE 2.0, immediate financial incentives (like gift cards in small amounts) to encourage contribution to a plan were prohibited.

- The Act permits employers to offer de minimis financial incentives, such as low-dollar gift cards, to boost employee participation, so long as they are not paid for with plan assets.

Hardship Distributions Easier to Administer

- Employers may rely on employees self-certifying that they experienced an event that constitutes a hardship.

Terminally Ill Excepted from 10% Early Withdrawal Penalty

- Self-certification not allowed.

Required Minimum Distribution (RMD) Age Increase

- 2023: from 72 to 73 for individuals who attain age 72 after 12/31/2022.

- 2033: from 73 to 75 for individuals who attain age 72 after 12/31/2032.

EFFECTIVE 2023

Employer Matching of Student Loan Payments

- Permits an employer to make matching contributions into the retirement plan for qualified student loan payments made by the employee. In essence, the student loan payment is treated like a retirement plan elective deferral and can be matched.

- Student loan matching contributions must be:
    - Available to all participants eligible to receive matching contributions on elective deferrals.
    - Matched at the same rate as retirement plan elective deferrals.
    - Subject to the same vesting schedule as the match on elective deferrals.

EFFECTIVE 2024

Emergency Withdrawals

- An employee may claim a personal emergency and access up to $1,000 from their retirement plan. They can take one distribution per year and have the option to repay it within three years. If repaid, and they have another personal emergency expense, they can take another distribution. If not repaid within three years, they cannot take another distribution.

Increased Limit on Small Balance Force-outs: from $5,000 to $7,000.

EFFECTIVE 2024

“Side-car” Emergency Savings Account

- Non-highly compensated employees can save for emergencies inside the retirement plan.
- Employee contributions are capped at $2,500. Once the cap is reached, additional contributions can be directed to the employee’s Roth balance.
- Contributions are made on a Roth-like basis and treated as elective deferrals for purposes of an employer match.
- Distributions are deemed to be a qualified Roth distribution and are non-taxable.
- At separation of service, participants may take their emergency savings balance as cash or roll it into another qualified Roth account.
- Employers are permitted to automatically enroll employees at no more than 3% and invest employees in a manner consistent with the Department of Labor QDIA regulations.

Penalty-free Distributions for Cases of Domestic Abuse

- The lesser of $10,000, indexed for inflation, or 50% of the participant’s account.
- Participants can self-certify.
- Distribution can be repaid over 3 years and refunded for income taxes.

EFFECTIVE 2025

Higher Catch-up Limits for those Age 60-63

- The greater of $10,000 or 150% of the regular catch-up limit for 2024, indexed for inflation.

Long-term Part-time Workers Join the Plan Faster

- Currently, the eligibility period for long-term part-time workers is 3 consecutive years (500+ hours each year).

- The Act reduces this to 2 consecutive years.

Plan Amendments Made to Comply with the Act Must be Adopted by the End of the 2025 Plan Year.

EFFECTIVE 2026

Catch-up Contributions Must Be Made as Roth for High-income Earners

- Currently, anyone age 50+ can elect to make catch-up contributions as pre-tax or Roth.

- The Act requires catch-up contributions for anyone earning $145,000+ (indexed) to be made as Roth.

We hope you found this executive summary helpful! As a reminder, we focused on the areas we believe to be most relevant to existing plan sponsors, fiduciaries, and administrators. There are plenty of additional pieces of this legislation, including some really interesting assistance for organizations looking to start a new retirement plan.

Please reach out for more information and read through the 19-page summary released by the Senate Finance Committee by clicking here.

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