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Commco Comments

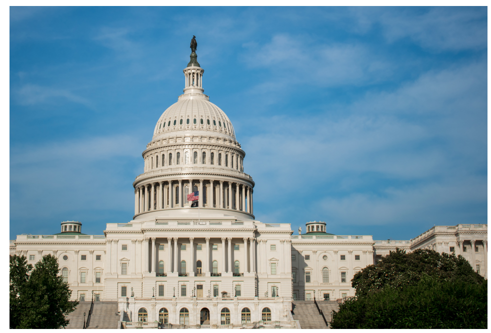
Timely Information and Updates for Employers and Retirement Plan Sponsors

SECURE 2.0: Mandatory and Optional Retirement Plan Changes

The SECURE 2.0 Act, signed into law on December 29, 2022, contained numerous significant changes impacting both individual and employer-sponsored retirement plans. This includes a number of mandatory changes, as well as some that employers may optionally elect to adopt. Most of the required changes don't take effect until 2024 or later, giving retirement plan sponsors and their service providers time for preparation and implementation. Below is a summary of some key provisions of the Act.

Mandatory: Automatic enrollment in new plans

Currently, employer-sponsored retirement plans may optionally include an automatic enrollment feature. Retirement plans established with initial plan years beginning in 2025 or later will be required to use automatic enrollment.



Mandatory: Part-time employee eligibility

Under ERISA, employers could restrict retirement plan participation to employees who worked at least 1,000 hours in a plan year. The first SECURE Act required that employees be allowed to participate if they worked 500-999 hours per year for three consecutive years; SECURE 2.0 reduces that requirement to two consecutive years. This provision applies to plan years beginning on or after January 1, 2025.

Mandatory: Roth catch-up contributions for high earners

Beginning in 2024, any catch-up contributions made by participants who earned greater than $145,000 in the previous year (indexed for inflation after 2024), are required to be categorized as Roth.

Mandatory: Changes to Required Minimum Distributions (RMD)

Prior to 2023, participants were generally required to begin taking distributions from their retirement plans at age 72. SECURE 2.0 increases that age to 73 in 2023, and again to 75 in 2033. Additionally, the Act eliminates the requirement for RMDs from the Roth portion of accounts beginning in 2024 (this was already true for Roth IRAs). It also reduces the penalty for a missed RMD from 50% to 25%, with a further reduction to 10% if the error is corrected timely.

Optional: Simplification of notices to unenrolled participants

Before the passage of SECURE 2.0, multiple retirement plan notices were required to be sent to all employees eligible for plan participation, even if they had opted out. The Act reduces the notice requirement to unenrolled participants to an annual notice of eligibility. Any other document a participating employee should receive must now be provided to a non-participating employee upon request only.

Optional: Reliance on employee's certification for hardship distributions

Previously, plan sponsors were required to obtain documentation of an employee's eligible need prior to approving hardship distributions. Employers may now rely on the employee's self-certification of a deemed hardship financial need (however, they should not rely on an employee's self-certification if they have information that contradicts it).

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In the year 2025, what will be the age at which a participant must begin taking Required Minimum Distributions?

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Optional: Increasing force-out threshold

Currently, employers can force rollover distributions for terminated participants with a balance of $5,000 or less. SECURE 2.0 permits, but does not require, this threshold to be increased to $7,000 starting in 2024.

Optional: Matching contributions for student loan payments

Beginning in 2024, employers may choose to adopt a provision of treating employee student loan payments as retirement plan salary deferrals for the purposes of receiving matching contributions into the employer's retirement plan.

Optional: Roth matching contributions

Sponsors of 401(a), 403(b), and 457(b) plans are now permitted to allow their employees to designate their employer matching contributions as Roth. Employer contributions designated as Roth must be immediately 100% vested and are taxable to the employee as ordinary income at the time they are made.

Optional: Emergency savings accounts

Effective for plan years beginning 2024 or later, employers may incorporate short-term emergency savings accounts into the retirement plan accounts of non-highly compensated employees. These accounts will be funded by Roth salary deferrals up to $2,500 (indexed for inflation). Contributions are eligible to receive any applicable employer match. Participants may take up to one withdrawal per month, and the first four withdrawals each plan year cannot be subject to fees.

The SECURE 2.0 Act contains many more changes than can be covered here. Third party administrators (TPAs) will be reaching out to plan sponsors over the next year to incorporate mandatory changes and discuss elections for optional provisions. If you have questions or would like to discuss impacts to your company's plan with your advisor, please email us at newsletter@thecommco.com.