SECURE 2.0 Act Update—2024 and Beyond

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Agenda

- Increase in annual catch-up contribution limit
- Long-term part-time employee eligibility
- Student loan payment matches
- Required Minimum Distributions
- Auto-portability
- Roth catch-up contributions

Catch-Up Contribution Limit

Increased Catch-Up

- Increased catch-up for years participant turns 60, 61, 62 and 63
- Catch-up equals the greater of $10,000 (indexed) or 150% of the standard catch-up limit
- Effective in 2025

Long-Term, Part-Time Employee Eligibility

Long-Term, Part-Time Eligibility

- SECURE 1.0 requires participants to become eligible for **elective deferrals** upon working 3 consecutive years with at least 500 hours
- SECURE 2.0 shortens this rule to 2 consecutive years with at least 500 hours
- Effective beginning in 2024/2025
- Years prior to 2021 are excluded for vesting purposes

LTPT Employee—What is a Year?

- First year begins on hire date
- Plan choice on subsequent periods:
  - – Can use anniversary of hire date
  - – Can switch to plan year
    - If you switch, first two years overlap
- Most plans use same method as eligibility computation period

LTPT Employee—500 Hours

- Must have **consecutive** years with between 500 and 999 hours
- Can count actual HOS or use an approved equivalency method
- Elapsed time plans don’t need to comply
- Must also meet the plan’s age requirement

LTPT Employee—Class Exclusions

- The LTPT regulations permit class exclusions
  - Plans can exclude certain groups, such as people in given job positions or geographic locations
  - However, exclusions cannot be a **proxy** for an age or service requirement

LTPT Employee—Vesting

- For LTPT employees, years with 500 hours = A year of vesting service (employer contributions only)
- Former LTPT employees continue getting year of service for 500-hour years
- Potential for complex calculations/headaches

Qualified Student Loan Payment (QSLP) Match

QSLP Match

- Notice 2024-63: Rules regarding certification and ADP testing
- Allows for single claim deadline or multiple claim deadlines
- Student loan match may be contributed at different frequency than elective deferral match
- Student loan match need not be made on a rolling basis as claims are submitted

Required Minimum Distributions (RMDs)

Required Beginning Date

- Required beginning date increased to:
  - 72 (or retirement, if later) for a participant who attains age 72 on or before December 31, 2022
  - 73 (or retirement, if later) for a participant who attains age 72 after December 31, 2022, and age 73 before January 1, 2033
  - 75 (or retirement, if later) for a participant who attains age 74 after December 31, 2032.

RMD Changes—Death Benefits

- Death benefit rules are different for:
  - An eligible designated beneficiary
  - A non-eligible designated beneficiary and
  - A beneficiary that is not a designated beneficiary

RMD Changes—Death Benefits

- An “eligible designated beneficiary” is a designated beneficiary that is:
  - The participant’s surviving spouse
  - Disabled or chronically ill
  - The participant’s child who has not reached the age of majority
  - Any beneficiary that is not more than 10 years younger than the participant
- An eligible designated beneficiary can use the 10-year rule or the life expectancy rule

RMD Changes—Death Benefits

- Ten-year rule—Plan must distribute a deceased participant's entire account balance no later than December 31 of the calendar year containing the tenth anniversary of the participant's death
- Life expectancy rule—Payment of the benefit must begin no later than December 31 of the calendar year immediately following the calendar year in which the participant dies (except spouses)

RMD Changes—Death Benefits

- Non-eligible designated beneficiaries must use the 10-year rule
- Beneficiaries that are not designated beneficiaries continue to use the 5-year rule

RMD Changes—SECURE 2.0

- Excise tax for missed RMDs reduced from 50% to 25%–10% if the error is corrected timely
- Lifetime RMD rules will not apply to Roth accounts
- Surviving spouse can elect to be treated as the participant for RMD purposes
- Effective in 2024

Auto-Portability

Auto-Portability

- SECURE 2.0 adds a PTE allowing “auto-portability”
- Accounts under $7,000 and transferred to an IRA can be automatically rolled into the new employer’s plan
- Retirement plans are not required to accept the funds auto-rolled from IRAs
- DOL proposed regulations in January 2024

Auto-Portability—Employer Considerations

- Fiduciary duties will apply
  - Are fees reasonable?
  - Is auto-portability provider meeting disclosure rules?
  - Does provider have sufficient data protection?
- Must appoint a “plan official” for monitoring transfer funds
- SPD must be updated to include description of auto-portability rule and fees

Roth Catch-Up Contributions

Roth Catch-Up Contributions

- 2024—Catch-up contributions must be made on a Roth basis.
- Only applies to participants earning more than $145,000 in wages (indexed) in the prior year.
- American Benefits Council established a petition to delay implementation for all plans.
- IRS Notice 2023-62 (August 2023) extended the effective date until plan years beginning in 2026.

Roth Catch-Up Contributions

- Is prior year compensation from other employers included?
- Does the rule apply to self-employed people?
- How does the rule apply to funds designated as catch-up after the fact?
- How will the rule apply when a participant makes a separate catch-up election?
- Can we require all catch-up to be Roth?
- Can we prohibit employees above $145,000 from catch-up contributions?

Key Takeaways

- Stay tuned for guidance on catch-up Roth
- Check in with recordkeeper to ensure RMDs will be up to date
- Consider options for accepting auto-portability funds

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Session Evaluation