Alliant Insurance Services

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SECURE ACT 2.0

What you need to know for your retirement plan

SECURE 2.0 is follow-up legislation to the SECURE Act of 2019 (Setting Every Community Up for Retirement Enhancement Act of 2019**.)** It expands upon and clarifies several items in the prior legislation. It will have a large impact on qualified retirement plans such as 401(k)s. It is also very clear that significant regulatory guidance from the IRS and DOL will be necessary as well. (Mandatory provisions are followed by an asterisk - *.)

Effective in the 2023 Plan Year (PY)

- **Required Minimum Distributions (RMDs)**
  - Age requirement has been increased to age 73. It will be increased again to age 75 starting Jan 1, 2033*;
  - RMDs may now be determined through pooling distributions from retirement accounts and annuities, rather than calculated separately;
  - Greatly reduced excise taxes for failure to take Required Minimum Distributions. (From 50% to 25% or even 10% in certain instances)*.
  - Mortality Tables have been updated
- **Expanded Coverage (for small new plans only)**
  - Increased start up credit for small employers (of up to 100% of expenses in the first year)
  - Employer contributions now provide additional credit up to a per-employee cap of $1,000*.
  - Plan sponsors may provide *small* financial incentives to employees in order to encourage plan participation.
  - 403(b) plans may now participate in multiple employer plans (MEPs) or pooled employer plans (PEPs)
- **Lifetime Income Considerations**
  - QLAC's (Qualifying Longevity Annuity Contracts) can be shared by spouses as joint and survivor annuities
- **Fiduciary Relief**
  - Fiduciaries are no longer required to seek out reimbursement from benefit overpayments, but those that do may not receive any more than the portion that was overpaid. Overpayments do not affect the qualification status of a plan
  - A new tax credit of up to $500 per military spouse (who becomes for eligible within two months and other requirements) is available for small employers.
  - Employers do not need to repeatedly inform unenrolled employees of their eligibility so long as they are reminded once a year and all necessary documentation is available.
  - Employers may continue to use overfunded pension plans to pay retiree health insurance until 2032
- **Participant-level provisions**
  - Domestic employees may be provided with retirement benefits under a simplified employee pension (SEP).
  - Repayment of Qualified Birth or Adoption Distributions (QBOAD) are limited to 3 years.* Retroactively effective.
  - Terminally ill individuals may take penalty free distributions.
  - Public safety officers may take penalty free distributions if they have at least 25 years of service with the Plan Sponsor.
  - Victims of Federally declared disasters since Jan 1, 2022 may take penalty free distributions of up to $22,000.

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**QBOADs are not mandatory, but if permitted repayments MUST be limited to three years.*

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Effective within 2 years from enactment (PY 2024)

- **Plan coverage expansion**
  - Long-Term Part-Time eligibility changed from 3 consecutive years of 500 hours work to 2 consecutive years*
  - Employees must be automatically enrolled in new plans between 3-10%, with an annual auto increase of 1%. (Does not apply to very new or very small employers.)*
  - Employers with no retirement plan can offer "Starter" 401(k) or 403(b)
- **Increased benefits / savings / accessibility**
  - All catch up contributions *will be subject* to Roth treatment unless employee has compensation less than $145,000*
  - Employers *may match* student loan payments as though they were plan contributions.
  - IRA catch up limit will be indexed for inflation.*
  - Catch up limits for participants ages 60-63 will be increase to $10,000*
  - Plans may allow for tax free distributions for emergency expenses up to $1,000, and repayable within 3 years.
  - Employers may make additional contributions to SIMPLE Plans uniformly across employees that cannot exceed either $5,000 or 10% of compensation, whichever is lesser
  - Tax free rollover of unused dollars from 529 accounts to Roth IRA. 529 account must have been open for more than 15 years
  - Employers may offer non-HCEs emergency saving accounts that link to their retirement plans
  - Victims of abuse may take penalty free distributions equal to the lesser of 50% of account balance or $10,000
  - Plans can make distributions for payment of premiums for high-quality long-term coverage plans
  - IRA catch up limit will be indexed for inflation.*
- **Fiduciary Relief**
  - Expanded safe harbor corrections for employers if errors are corrected within 9.5 months of being made
  - Creation of Lost and Found database for retirement plans by the DOL*
  - Fiduciaries may use a benchmark to assess performance of DIAs
  - Increase cash out limit to $7,000*
  - May perform top heavy tests separately for otherwise excludable employees
  - Administrators may rely on employee self-certifications of hardship requirements
  - Employers can replace SIMPLE IRA with SIMPLE 401(k) or other 401(k)

What is Effective 3+ Years within 2 years from enactment (PY 2025 or beyond)

- Savers Credit changed from a cash payment from a tax refund to a federal matching contribution*
- Exchange traded fund (ETF) availability on variable annuity platforms
- Defined Contribution Plan statements need only 1 statement provided in paper annually*