SECURE ACT 2.0
What Employers Need to Know

QuartzPartners INVESTMENT MANAGEMENT

Enacted December 29, 2022 the Secure Act 2.0 significantly changes the complex tax rules applicable to employer sponsored retirement plans. Part of the Consolidated Appropriations Act, 2023, is one of the most comprehensive pieces of retirement legislation in decades. The legislation strives to expand access to retirement plans, increase retirement savings, simplify disclosures, and help American's preserve income and streamline retirement plan rules.

EFFECTIVE TODAY...

- **Roth Employer Contributions:** Employers may now choose to offer matching or nonelective contributions as after tax Roth contributions.
- **Small Participant Incentives for Contributions:** Employers can no offer small rewards (e.g., gift cards) to employees to participate in a 401k or 403b plan and make contributions.
- **Tax Credits:** Companies with less than 50 employees to establish a new retirement plan, can claim up to 100% of the start-up administration costs (max $5,000). For employees that earn less than $100,000, employers may claim an additional $1,000 per employee (max $50,000), employers at their discretion can also apply this tax credit towards the employees matching contribution.
- **RMD Age Increase:** Individuals can now wait until age 73 (previously 72) to take mandatory required-minimum-distributions. Starting in 2033 the RMD age will again increase to age 75.
- **RMD Penalties:** The penalty for missing an RMD has been reduced from 50% to 25% and if the failure is corrected in a timely manner the penalty is further reduced to 10%.
- **Military Spouses:** Employers can claim up to a $500 retirement plan tax credit if they allow employees who are spouses of armed service members to save through the company's retirement plan.
- **Self Correct Program:** Allows for easier plan corrections of loans through eh Employee Plans Compliance Resolution System ("EPCRS").
- **Employee Self-Certify Hardship Distribution:** No longer are employers liable, employees may now self-certify they are going through a hardship and need access to their retirement funds.
- **Terminal Illness Withdrawals:** Terminally ill participants may withdraw retirement funds without being subject to the 10% early withdrawal tax penalty.
- **Federal Disaster Withdrawals:** Retractive to January 26, 2026, rules go into effect that allow up to $22,000 to be distributed from a retirement plan or IRA for effected individuals who are not subject to the 10% early distribution tax penalty.

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EFFECTIVE 2024...

- **Roth-Required Catch-Up Contributions:** For participants over 50 earning more than $145,000, then catch-up contributions are required to be Roth contributions. This does not effect plans that do not offer Roth contributions.

- **RMD's Not Required for Roth Contributions:** Roth 401k and 403b savings are no longer subject to RMD (required minimum distribution) rules, meaning employee accounts can continue to grow tax-free.

- **Emergency Withdrawals:** Participating employees may claim a personal emergency and access up to $1,000 from their retirement plan. They can take 1 distribution per year and have the option to repay it within 3-years. If it is not repaid within 3-years, they cannot take another emergency distribution.

- **Force-Out Rollover Limit:** Employers may transfer former employees retirement account out of the plan to a Rollover IRA if their balances are between $1,000 and $7,000.

- **Automatic Portability:** This provision allows for the automatic portability of an employees retirement account from a former employer.

- **"Side Car" Emergency Savings Account:** New payroll deduction account that is for short-term emergencies. Non-highly compensated employers could be automatically enrolled at 3% and can save up to $2,500 in this Roth account. They can access the account tax- and penalty-free.

- **Student Loans:** Employers can apply their retirement plan matching formula to match an employee' s student loan repayments, and deposit the match into the employees retirement account.

- **Retirement Lost & Found:** A new national online searchable database will be established to located retirement accounts.

- **Penalty-Free Withdrawals for Victims:** Domestic abuse survivors may withdraw the lessers of $10,000 or 50% of their retirement account.

EFFECTIVE 2025...

- **Access for Part-Time Workers:** Part-time employees who work at least 500 hours per year for 2 consecutive 12-month periods may be allowed to participate in the employers retirement plan. Employers are not required to match employee contributions for part-time workers.

- **Automatic Enrollment:** All 401k and 403b plans established in 2025 and beyond are required to automatically participants and auto-escalate savings. The employer will set the introductory deferral amount between 3 - 10% and deferral amount increases by 1% up to 10 - 15% retirement savings per year.

- **Higher Catch-Ups For 60-63 Year Olds:** Employees between the age of 60 - 63 can increase their catch-up contribution to $10,000 in 401k and 403b plans.

EFFECTIVE 2027...

- **Enhance and Promote Saver's Match:** The saver's match is designed to help low-to-moderate income workers through a U.S. Treasury match program, eligible to employees over the age of 18 who earn up to $41,000 but not more than $71,000. The U.S. Treasury will match 50% of the retirement plan contribution up to $2,000.