SETTING EVERY COMMUNITY UP FOR RETIREMENT ENHANCEMENT (SECURE) ACT 2.0

On December 29, 2022, the SECURE Act 2.0 was signed into law. The SECURE Act 2.0 includes a number of retirement savings and employee benefit changes. The summary below was prepared by Northwest Retirement Plan Consultants to explain some of the relevant retirement plan changes and when they are effective.

Effective January 1, 2023

- Required Minimum Distributions (RMD)
  - Previously, some plan participants were to receive required minimum distributions by April 1 following the year the participant attains age 72.
  - The SECURE Act 2.0 changes the RMD age from 72 to 73.
  - Penalty for failure to receive an RMD was reduced from 50% to 25%
  - This change effects plan participants who reach age 73 after December 31, 2022.
  - The RMD age will be increased from age 73 to 75 in 2033.

- Modification of Credit for Small Business Plan Startup Costs
  - Previously, the 3-year small business startup credit is 50% of administrative costs, up to annual cap of $5,000.
  - Secure Act 2.0 increases the startup credit from 50% to 100% for employers with up to 50 employees.
  - Except in the case of defined benefit plans, an additional credit is provided. The amount of the additional credit generally will be a percentage of the amount contributed by the employer on behalf of employees, up to a per-employee cap of $1,000. This full additional credit is limited to employers with 50 or fewer employees and phased out for employers with between 51 and 100 employees. The applicable percentage is 100 percent in the first and second years, 75 percent in the third year, 50 percent in the fourth year, 25 percent in the fifth year – and no credit for tax years thereafter.

- Optional Treatment of Employer Matching or Nonelective Contributions as Roth
  - Previously, a retirement plan can only provide company contributions as pre-tax contributions.
  - Under Secure Act 2.0, matching contributions or nonelective contributions can be provided on a roth basis if the participant is 100% vested.

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NORTHWEST RETIREMENT PLAN CONSULTANTS, LLC

Effective January 1, 2024

- Catch-Up Contributions to be Roth Contributions for Certain Employees
  - Currently, anyone age 50 or older can contribute a catch-up contribution of $7,500 to a 401(k) plan as pre-tax or roth.
  - Under the Secure Act 2.0, if a participant's wages in the prior year paid by the employer sponsoring the plan was more than $145,000, the participant may only contribute the catch-up as a Roth contribution.

- RMD on Roth Accounts
  - Currently, Roth accounts in a 401(k) or 403(b) plan are subject to the RMD rules.
  - Under the Secure Act 2.0, roth accounts will be excluded from RMDs.

- Student Loan Payments Treated as 401(k) Contributions for Purposes of Matching Contributions
  - This is intended to assist employees who may not be able to save for retirement because they are overwhelmed with student debt and thus are missing out on match contributions from retirement plans.
  - Employers are allowed to make matching contributions under a 401(k) or 403(b) plan with respect to "qualified student loan payments."
  - A qualified student loan payment is defined as any indebtedness incurred by the employee solely to pay qualified higher education expenses.

- Withdrawal for Emergency Personal Expenses
  - Plans may permit one withdrawal per calendar year up to $1,000 for an unforeseeable or immediate financial need relating to necessary personal emergency expenses.
  - This distribution is exempt from the 10% premature penalty.
  - The distribution may be repaid within 3 years and a subsequent distribution cannot be made until the repayment is completed.

- Increase in Force Outs and Automatic Portability Provision
  - Currently, a retirement plan benefit of less than $5,000 for a terminated participant can be automatically cashed out / transferred to an IRA.
  - Under the Secure Act 2.0, the $5,000 cash out limit will be increased to $7,000.
  - In addition, SECURE Act 2.0 paves the way for retirement plans and recordkeepers to offer automatic portability provisions for amounts transferred to a default IRA. These automatic portability provisions will enable amounts transferred to the default IRA to be automatically transferred into the retirement plan of the employee's new employer without the employee needing to take any action.

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Effective January 1, 2025

- Long-Term Part-Time Employees (only applies to 401(k) plans)
  - Retirement plans were allowed to exclude part-time employees (employees who work less than 1,000 hours during a plan year).
  - Under the SECURE Act, 401(k) plans will be required to cover long-term part-time employees.
  - A long-term part-time employee is now defined as someone who works two consecutive, 12 month periods with more than 500 hours of service in each year.
  - The employee must still meet the plan's age requirement.
  - The employee will be allowed to contribute his/her own 401(k) money to the plan. The company is not required to provide any company contributions.
  - Service prior to January 1, 2023 is excluded to determine the two consecutive years of at least 500 hours.

- Increased Catch-Up Limits
  - Currently, anyone age 50 or older can contribute a catch-up contribution of $7,500 to a 401(k) plan.
  - The SECURE Act 2.0 increased the catch-up limit to the greater of $10,000 or 50% more than the regular age 50 catch-up amount in 2025 (as indexed for inflation).
  - This is for participants who are ages 60, 61, 62 or 63.

- Expanding Automatic Enrollment
  - Secure Act 2.0 requires 401(k) and 403(b) plans to automatically enroll participants in the plans upon becoming eligible.
  - Employees may opt out of coverage.
  - The initial automatic enrollment is at least 3% but not more than 10%.
  - Each year thereafter that amount is increased by 1% until it reaches at least 10% but not more than 15%.
  - All current 401(k) and 403(b) plans are grandfathered and do not need to comply with this rule if the plan was setup prior to January 1, 2025.
  - There is an exception for small businesses with 10 or fewer employees and new businesses that have been in business for less than 3 years.