SECURE ACT 2.0

Significant Retirement Plan Changes

EFFECTIVE JANUARY 1, 2023

	Previous Requirements	New Requirements
Required Minimum Distribution Age	Age 72	Age 73
Employer Matching or Nonelective Contributions	Employer matching or nonelective contributions can be made only on a pre-tax basis.	401(k), 403(b), and governmental 457(b) plans may provide participants with the option to receive matching or nonelective contributions on a Roth basis.
In-Service Distributions for the Terminally Ill	Additional 10% tax applies to early distributions.	Early withdrawal penalty does not apply to individuals with a terminal illness.
403(b) Investments	403(b) plans were limited to annuity contracts and mutual fund investments.	Collective investment trusts are included on the list of permitted investments for 403(b) custodial accounts.
457(b) "First Day of the Month Rule"	457(b) participants must request deferral election changes prior to the beginning of the month in which the deferral will be made.	Participants can now request changes to their elections at any time prior to the date that the compensation being deferred is payable, which matches the rule for 401(k) and 403(b) plans.
Cash Balance Plans	Subjects cash balance and other hybrid plans to technical rules that make it difficult to offer market-based designs	Cash balance plans with variable interest crediting rates may use a projected interest credit rate that is "reasonable" and does not exceed 6%.
Military Spouse Eligibility Tax Credit		Small employers (100 or fewer employees) can receive a tax credit if they make military spouses (1) immediately eligible for plan participation within two months of hire, (2) eligible for any matching or nonelective contribution that they would have been otherwise eligible for at two years of service, and (3) 100% immediately vested in all employer contributions.
Small Employer Plan Startup Credit	Subjects cash balance and other hybrid plans to technical rules that make it difficult to offer market-based designs	The startup credit increases from 50% to 100% of administrative costs for small employers with up to 50 employees. The credit remains 50% for employers with 51-100 employees. Employers may also receive an additional credit based on the amount of employer contributions of up to $1,000 per employee.
Eliminating Unnecessary Disclosures for Unenrolled Participants		Employers are no longer required to provide most intermittent ERISA or Code notices to unenrolled participants who have not elected to participate in an employer's retirement plan.

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SECURE ACT 2.0

zelle human resource solutions

Significant Retirement Plan Changes

EFFECTIVE JANUARY 1, 2023 (CONT.)

	Previous Requirements	New Requirements
Hardship Distributions	Distributions on account of immediate and heavy financial need or an unforeseeable emergency, and the amount must be limited to the amount necessary to satisfy the financial need.	Plan administrators can rely on employee self-certification that they experienced a safe harbor event and that the requested amount does not exceed the amount required to satisfy the financial need.
Federally Declared Disasters.	Congress established rules for each disaster.	Penalty-free distributions of up to $22,000 per participant per disaster, and participants can recontribute distributed amounts to the plan within three years.

EFFECTIVE JANUARY 1, 2024

Student Loan Payments as Elective Deferrals for Matching Purposes		Employers may make a matching contribution to a 401(k), 403(b), governmental 457(b), or SIMPLE IRA plan with respect to an employee's qualified student loan payment.
Catch-up Contributions	Catch-up contributions can be made on a pre-tax or Roth basis (if permitted by the plan sponsor)	All age 50+ catch-up contributions made by employees making more than $145,000 per year must be made to Roth accounts.
Force-Out Distributions	Permits employers to transfer a former employee's workplace retirement account to an IRA if the balance is between $1,000 and $5,000.	The upper limit is increased to $7,000. Additionally, retirement plan service providers will be permitted to offer automatic portability services from a default IRA to the participant's new employer's retirement plan, unless the participant affirmatively elects otherwise.
Hardship Distributions	Subjects cash balance and other hybrid plans to technical rules that make it difficult to offer market-based designs	SECURE 2.0 conforms the 403(b) hardship rules to the rules for 401(k) plans.
Penalty-Free In-Service Withdrawals	Makes it easier for employees to access accumulated funds in their retirement plan by allowing plans to permit penalty free distributions in certain situations. Domestic abuse survivors may withdraw up to the lesser of $10,000 or 50% of the participant's account balance, and the participant may repay the withdrawal to the plan within three years. Additionally, a participant may receive one penalty-free withdrawal per year of up to $1,000 for unforeseeable or immediate financial needs relating to personal or family emergency expenses. The participant may repay the withdrawal to the plan within three years, and no other emergency withdrawals are allowed during the repayment period unless the participant repays the withdrawal to the plan.	

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SECURE ACT 2.0

Significant Retirement Plan Changes

EFFECTIVE JANUARY 1, 2024 (CONT.)

	Previous Requirements	New Requirements
Section 529 Rollovers		Beneficiaries of 529 college savings accounts may roll over up to $35,000 from any 529 account in their name to their Roth IRA over the course of their lifetime. These rollovers are subject to Roth IRA annual contribution limits, and the 529 account must have been open for more than 15 years.
Roth Required Minimum Distributions	Required minimum distributions from Roth IRAs are not required to begin prior to the account owner's death, but required minimum distributions from Roth-designated accounts in employer retirement plans must begin at age 72.	Eliminates the pre-death distribution requirement for Roth accounts in employer plans for taxable years beginning after December 31, 2023.
Top-Heavy Testing		Employers may perform top-heavy testing separately on non-excludible and excludible employees. This conforms top-heavy testing with the other nondiscrimination testing that already permits this separate testing.
Starter Plans		Employers that do not sponsor a retirement plan may offer a new type of plan, a "starter" 401(k) or 403(b) plan. Starter plans are deferral-only arrangements that enroll all employees at a deferral rate of 3% to 15% of their compensation.
SIMPLE Plan Conversion		Employers may replace a SIMPLE IRA plan during the plan year with a SIMPLE 401(k) plan or other 401(k) plan that requires mandatory employer contributions.
Additional Nonelective Employer Contributions to SIMPLE Plans		Employers with SIMPLE plans may make additional employer contributions above the existing 2% of compensation or 3% of employee elective deferrals requirement. Additional employer contributions must be made in a uniform manner and cannot exceed the lesser of 10% of compensation or $5,000 (indexed to inflation).
Emergency Savings Account.		Employers may offer non-highly-compensated employees an option to link an emergency savings account to their retirement plan. Employers may automatically opt employees into these accounts at no more than 3% of their salary, and the employee's contribution is capped at $2,500.

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SECURE ACT 2.0

Significant Retirement Plan Changes

EFFECTIVE JANUARY 1, 2025 + BEYOND

	New Requirements
Automatic Retirement Plan Enrollment	Effective for plan years beginning after December 31, 2024, new 401(k) and 403(b) plans must automatically enroll participants, unless employees affirmatively opt out of such enrollment. Initial deferral amounts must be at least 3% but no more than 10% of the employee's compensation, with automatic annual increases of 1% until the deferral amount is at least 10% but no more than 15%. All current 401(k) and 403(b) plans are grandfathered, and there is an exception for small businesses with 10 or fewer employees, entities that have been in business for less than three years, church plans, and governmental plans.
Part-Time Employee Eligibility	Under SECURE 1.0, effective with the 2024 plan year, long-term, parttime employees must be allowed to contribute to 401(k) plans after three consecutive years with 500 or more hours of service. Employees eligible for this provision also earn vesting credit for years with 500 hours of service. Twelve-month periods beginning before January 1, 2021 are disregarded for eligibility purposes, but the law did not limit the look-back period for vesting purposes.
Additional Catch-Up Contributions	Under current law, employees aged 50 or older in 2023 are permitted to make catch-up contributions of $7,500 ($3,500 for SIMPLE plans) in excess of otherwise applicable annual limits. Effective for taxable years beginning after December 31, 2024, SECURE 2.0 creates an additional "tier" of catch-up contributions for individuals who are ages 60, 61, 62 and 63. Such individuals will have an increased catch-up limit of $10,000 or 150% of the regular catch-up amount, whichever is greater. The increased amounts are indexed for inflation after 2025.
Benefit Statements	Effective for plan years beginning after December 31, 2025, defined contribution plans must provide a paper benefit statement at least once annually, unless a participant elects otherwise. The other three quarterly statements required under ERISA may be provided electronically. Defined benefit plans must provide a paper benefit statement at least once every three years, unless a participant elects otherwise.
Saver's Match Becomes a Federal Matching Contribution	Current law provides for a nonrefundable credit for certain individuals who make contributions to IRAs, employer retirement plans, and ABLE accounts. For taxable years beginning after December 31, 2026, this tax credit is replaced by a "federal matching contribution" credit, received by the taxpayer as part of their tax refund that must be deposited into the taxpayer's IRA or retirement plan. The match is 50% of IRA or retirement plan contributions up to $2,000 per individual for those below the adjusted gross threshold ($41,000 for joint filers and $20,500 for single taxpayers or those married filing separately). The match phases out above the threshold and ceases when the participant's adjusted gross income exceeds $71,000 (joint filers) or $35,500 (single or married filing separately).
Expansion of Gain Deferral for ESOP Stock Sales	Code Section 1042 currently allows an individual owner of stock in a non-publicly traded C corporation to defer recognition of gain from the sale of company stock to the ESOP. Effective for stock sold after December 31, 2027, gain deferral is allowed for the sale of stock to S corporation ESOPs, but deferral is limited to 10% of gains. The 10% limit does not apply to sales to C corporation ESOPs.

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