RAYMOND JAMES

SECURE 2.0 Act : Changes to employer-sponsored retirement plans

Rule changes are designed to encourage saving through the use of employer-sponsored retirement plans.

Enacted in December 2022, the SECURE 2.0 Act makes a variety of changes to the rules governing different types of retirement plans. These changes are designed to increase retirement savings opportunities, close coverage gaps, lower employers' cost of sponsoring retirement savings plans and reduce the administrative burdens of sponsoring a plan.

The act builds upon the Setting Every Community Up for Retirement Act of 2019 (SECURE Act), which many considered the most significant legal changes to retirement in more than 10 years. SECURE 2.0 makes changes to many of the same areas covered in SECURE while covering new ground. Given all the new rules and their often very precise details and varying effective dates, you'll want to make sure you carefully review how your retirement plan or plan offerings need to change.

1. MANDATORY AUTO-ENROLLMENT FOR NEW PLANS

Effective January 1, 2025, employers must ensure that any 401(k) and 403(b) plans established after December 29, 2022, automatically enroll employees when they become eligible. The automatic contribution percentage must be no less than 3% and no more than 10%. In subsequent years, the automatic contribution rate must increase by 1% each year until it reaches at least 10% but not more than 15%. For all of these requirements, the employee can opt out. Employers are also bound by these requirements for any multiple employer plans (MEPs) they join after December 29, 2022. These requirements do not apply to businesses in existence for less than three years, businesses with less than 10 employees, church plans or governmental plans.

2. FEDERAL SAVER'S MATCH

In lieu of the current tax credit for retirement contributions, the government will match 50% of participant deferrals up to $2,000 per individual, resulting in a maximum match of $1,000. This match is deposited directly into the participant's IRA or qualified plan account but not a Roth account. The match is phased out proportionately for adjusted gross income between $41,000 and $71,000 for joint filers and $20,500 and $35,500 for single filers, indexed for inflation. In addition, plans have the option to not accept the match payment. These provisions go into effect January 1, 2027.

KEY PLANNING CONSIDERATIONS

Discuss with your advisor how these provisions impact your individual circumstances.

Business owners will want to update their policies and procedures to conform to and take advantage of new legal provisions.

3. TAX CREDITS TO OFFSET START-UP PLAN COSTS

Small businesses with up to 50 employees can now receive a federal tax credit for plan administrative costs up to $5,000 in each of the first three years of a new plan. Additional credits are available for employer contributions to these startup plans. In particular, a credit of 100% of the contribution, up to a maximum of $1,000 per employee, is available the first year of a plan's creation; a credit of 75% of the contribution, up to a maximum of $750 per employee, is available the second year; a credit of 50% of the contribution, up to a maximum of $500 per employee, is available the third year; and a credit of 25% of the contribution, up to a maximum of $250 per employee, is available the fourth year. These contribution credits are phased out for employers having between 51 and 100 employees at 2% per employee over 50 employees. In addition to being available to new plans, these credits are available for new employers joining a multiple employer plan (MEP) or a pooled employer plan (PEP).

4. INCREASE IN REQUIRED MINIMUM DISTRIBUTION AGE

As of now, for those who turn age 72 after December 31, 2022, the age at which an individual must begin taking required minimum distributions (RMDs) from their tax-deferred retirement accounts is 73. On January 1, 2033, for those who turn age 75 after December 31, 2032, the age at which they must begin taking these distributions is 75.

5. CATCH-UP CONTRIBUTION LIMIT INCREASE

OPTIONAL BUT NO REASON NOT TO ADOPT

Effective January 1, 2025, the amount of catch-up contributions individuals can make under a retirement plan increased to 150% of the regular catch-up limit at ages 60, 61, 62 and 63. Although plans have the option to not allow catch-up payments or these higher limits, there is no reason not to allow them.

6. CATCH-UP CONTRIBUTION TREATED AS ROTH CONTRIBUTIONS REQUIRED

Beginning January 1, 2024, all catch-up contributions for all participants earning greater than $145,000 in the previous year are Roth contributions. The plan must have a stand-alone Roth contribution option, and if it doesn't, participants meeting the compensation threshold may not make catch-up contributions.

7. STUDENT LOAN PAYMENTS MAY BE MATCHED

For plan years beginning after December 31, 2023, employers can make payments to retirement accounts that match employee student loan payments. In calculating the match, the total of student loan payments and elective deferrals cannot exceed the annual participant contribution limit ($23,000 for 2024). The match rate must be the same for student loan payments and elective deferrals. Loan payments are not included in the plan's annual compliance testing. That is, the plan sponsor may test those receiving a match on student loan payments separately for compliance testing, increasing the likelihood of passing.

8. WITHDRAWALS FOR CERTAIN EMERGENCY EXPENSES

OPTIONAL

The act creates a new exception from the 10% tax penalty for premature distributions from a retirement account. If the distribution is used for unforeseeable or immediate financial needs relating to personal or family emergency expenses, it is exempt from the penalty. However, an individual can only take one such distribution per year up to $1,000. The individual can repay the distribution within three years, and unless the distribution is repaid, future emergency withdrawals are not permitted for three years.

9. PART-TIME EMPLOYEES MUST BE ELIGIBLE FOR ELECTIVE DEFERRALS AFTER TWO YEARS OF SERVICE WITH 500 HOURS REQUIRED

The employer may also require that the part-time employee is age 21. The employer can disregard any pre-2021 service for participation and vesting purposes. For these part-time employees, the employer can decide whether to make contributions. However, if you make employer contributions, the 500 hours is also considered a year of service for vesting purposes. These provisions are effective for any plan years beginning after December 31, 2024.

10. EMERGENCY SAVINGS ACCOUNTS OPTIONAL

For plan years beginning after December 31, 2023, employers may automatically enroll non-highly compensated employees as participants in 401(k) or 403(b) plans at no more than 3% of compensation on a Roth basis. For these individuals, once the account balance reaches $2,500, contributions continue as regular Roth contributions or are stopped until the balance falls below the cap. For the purposes of determining any matching contributions, employers may treat the employee's contributions as elective deferrals. If the employee is terminated, they may cash out or roll over their account balance. The first four withdrawals from the account in each plan year may not be subject to withdrawal fees from the recordkeeper, but most recordkeepers charge a fee for other types of withdrawals.

11. MISSED RMD PENALTIES REQUIRED

As of now, the penalty for participants who fail to make an RMD from their retirement accounts has been reduced from 50% to 25%. These participants have the opportunity to further lower the penalty to 10% if they take the RMD within two years of the year of the failure and submit a return within the two year period, reflecting the tax owed on the RMD.

12. FORCE-OUT LIMIT RAISED FROM $5,000 TO $7,000 OPTIONAL BUT NO REASON NOT TO ADOPT

For distributions made after December 31, 2023, employers may transfer former employees' retirement accounts from a workplace retirement plan into an IRA if their balances are between $1,000 and $7,000.

13. TOP-HEAVY RULE CHANGES OPTIONAL BUT NO REASON NOT TO ADOPT

Under current law, a plan is top-heavy when the owners and the most highly paid employees own more than 60% of the value of plan assets. Plan administrators must test this ratio every year based on the account balances on the last day of the prior plan year. When a test establishes that a plan is top heavy, the plan administrator must provide employees with a minimum of a 3%-of-pay nonelective contribution. Under the SECURE 2.0 Act , for plan years after December 31, 2023, participants with less than one year of service are not included in the test of the plan's top heaviness. As a result, from a plan administrator's perspective, there is no downside to allowing new employees to participate in the plan early.

14. PARTICIPANT SELF-CERTIFICATION OF HARDSHIPS ALLOWED OPTIONAL BUT NO REASON NOT TO ADOPT

For plan years beginning in 2023, employees are permitted to self-certify that they have a hardship for purposes of taking a hardship withdrawal; no documentation is needed.

15. DOMESTIC ABUSE WITHDRAWAL OPTION OPTIONAL

Participants who self-certify that they experienced domestic abuse may withdraw a small amount of money (the lesser of $10,000, indexed for inflation, or 50% of the participant's account) without any early withdrawal penalty. In addition, if participants repay the withdrawn money from the retirement plan over the course of three years, they will be refunded for income taxes they paid on the withdrawn money.

16. RETROACTIVE AMENDMENTS ALLOWED OPTIONAL

Another change for plan years after December 31, 2023, is that plan administrators may amend the plan up to the due date of the employer's tax return, but any amendments must increase participants' benefits.

17. CHANGES IN PLAN NOTIFICATION RULES

For plan years beginning after December 31, 2022, plan administrators needn't send plan notices to eligible participants without a balance but may send an annual reminder of eligibility to participate.

18. ROTH ACCOUNTS NOT SUBJECT TO RMDS REQUIRED

Starting in 2024, RMDs are no longer required from Roth accounts in employer retirement plans. However, Roth accounts are still included in 2023 RMDs that are paid in 2024.

19. TERMINAL ILLNESS DISTRIBUTION OPTION OPTIONAL

Another exemption from the 10% early withdrawal penalty that is now in effect is for cases in which a physician certifies the participant has an illness or physical condition that can reasonably be expected to result in death no longer than 84 months from the date of the certification. Those invoking the exemption may repay the withdrawn amount over the course of three years.

20. SURVIVING SPOUSE ELECTION TO BE TREATED AS EMPLOYEE REQUIRED

Beginning January 1, 2024, a surviving spouse of a deceased participant may elect to be treated as the deceased participant for the purposes of determining RMDs. This choice could be advantageous for those spouses who are older than the deceased participant, resulting in a delayed RMD start date and/ or decreasing the required distribution.

21. FEDERALLY DECLARED DISASTER WITHDRAWALS OPTIONAL

For any disasters occurring after January 26, 2021, plan participants in federally declared disaster areas who sustained an economic loss on account of the disaster are exempt from the 10% early distribution penalty for withdrawals of up to $22,000. The distribution is counted as gross income proportionately over three years and may be repaid over three years. The act also allows plans to provide for higher limits on loans to participants and extended time for loan repayment.

22. PAPER STATEMENT REQUIREMENT REQUIRED

For plan years beginning after December 31, 2025, the plan must provide at least one quarterly statement in paper annually unless the participant elects otherwise. The other three quarterly statements may be provided electronically, but the participant must be able to elect paper statements.

23. PLANS MAY ALLOW PARTICIPANTS TO DESIGNATE MATCHING CONTRIBUTIONS AND NONELECTIVE CONTRIBUTIONS AS ROTH CONTRIBUTIONS OPTIONAL

Defined contribution plans can now provide participants with the option of receiving matching and non-elective contributions on a Roth basis. These contributions must be 100% vested.

24. CHANGES FOR SIMPLE PLANS

For plan years beginning after December 31, 2023, an employer may make additional, nonelective contributions to each employee of a Savings Incentive Match Plan for Employees (SIMPLE plan) in a uniform manner provided that the contribution may not exceed the lesser of up to 10% of compensation or $5,000 (indexed). In addition, for regular and catch-up contributions, the SECURE 2.0 Act increases limits. If the employer has 25 or less employees, the limit is 10% more than the normal SIMPLE limit. If the employer has greater than 25 employees, the employer must match 100% of the first 4% of employee contributions or make a 3% non-elective contribution to take advantage of the higher limit. Another provision allows plan sponsors to convert SIMPLE plans to 401(k) plans during the plan year so long as the 401(k) plan is a safe harbor plan.

25. NEW STARTER 401(k) AND 403(b) PLAN OPTION

Another section of the law permits an employer that does not sponsor a retirement plan to offer a starter 401(k) plan or a safe harbor 403(b) plan. Auto-enrollment is required for these plans, and they are exempt from compliance testing. The contribution limits are equal to IRA contribution limits, and no employer contributions are allowed. These options become available for plan years beginning after December 31, 2023.

26. EXCESS 529 PLAN BALANCES MAY BE ROLLED OVER TO A ROTH IRA

For 529 plans that have been established for at least 15 years, 529 account holders may roll over balances to a Roth IRA without any taxes or penalties. However, contributions made within the last five years and their related earnings may not be rolled over to the Roth IRA. A $35,000 lifetime maximum also applies to these rollovers. These provisions are effective for distributions made after December 31, 2023.

27. SIMPLE PLANS AND SIMPLIFIED EMPLOYEE PENSIONS (SEPS) ALLOW ROTH CONTRIBUTIONS

Employee and employer contributions to SIMPLE and SEP plans may now be Roth contributions at the election of the employee.

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863 // RAYMONDJAMES.COM

The content provided herein is based on an interpretation by Raymond James of the SECURE 2.0 Act and is not intended to be legal advice or provide a tax opinion. Please discuss these matters with the appropriate professional. This document is a summary only and not meant to represent all provisions within the SECURE 2.0 Act .

Investment products are: not deposits, not FDIC/NCUA insured, not insured by any government agency, not bank guaranteed, subject to risk and may lose value. © 2024 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC. © 2024 Raymond James Financial Services, Inc., member FINRA/ SIPC. Raymond James® is a registered trademark of Raymond James Financial, Inc. 24-GWS-1881 BS 3/24