

Plan Sponsor Bulletin

Updates for retirement plan administration

JANUARY 2023

What Is Included in SECURE 2.0

You may have heard that SECURE 2.0 was signed into law as part of a massive year-end government funding bill. SECURE 2.0 is made up of more than two dozen retirement plan-related provisions aimed at expanding plan coverage, preserving income in retirement and simplifying administrative rules.

There are few provisions in the bill that are mandatory, and they all have delayed effective dates. For provisions that are effective immediately, plan sponsors are permitted, but not required, to make them available. The bill also includes an extended remedial amendment date, giving most plan sponsors until December 31, 2025 (for calendar year plans) to adopt amendments.

Provisions aimed at expanding coverage include:

- Requiring new 401(k) and 403(b) plans established on or after January 1, 2025 to include automatic enrollment and automatic escalation features. There are exceptions for small employers, new employers, and non-ERISA church and governmental plans.
- Increasing the business start-up credit from 50% to 100% for employers with up to 50 employees, effective for tax years after December 31, 2022. An additional credit is also created for defined contribution plan sponsors of up to \$1,000 per employee and based on employer contributions to the plan. The bill also clarifies that the start-up credit is available for the first three years of an employer's participation in an MEP. Additional tax credits will be available for contributions made to certain military spouses.
- Converting the Saver's Credit from a tax credit to a federal matching contribution to the eligible taxpayer's IRA or workplace plan. The new match is effective January 1, 2027.
- Applying Pooled Employer Plan (PEP) rules to 403(b) plan sponsors.
- Increasing the age for required minimum distributions from 72 to 73, beginning on January 1, 2023. An additional increase to age 75 is scheduled for 2033.

- Indexing the IRA catch-up contribution limit, consistent with other retirement plan annual limits, beginning in 2024.
- Increasing catch-up contribution maximums for those aged 60 through 63 to \$10,000 or 150% of the regular catch-up amount for those aged 50 and older, whichever is greater, beginning in 2025. In addition, beginning in 2024, all catch-up contributions made by participants with annual compensation of \$145,000 or more must be made on a Roth basis.
- Allowing employers to make matching contributions based on participants' student loan repayments, rather than elective deferrals, beginning in 2024.
- Permitting employers to provide small financial incentives, like low-dollar gift cards, to boost participation in their workplace plan.
- Creating new methods of accessing retirement savings for emergencies:
 - Withdrawals of up to \$1,000 a year or emergency expenses, which can be repaid over a three-year period. Distributions would be exempt from excise tax on early distribution and included in gross income.
 - A new emergency savings account for non-highly compensated employees within defined contributions plans, into which participants can make Roth-like contributions up to \$2,500. Distributions would be tax-free and may be used for any purpose.
 - Up to \$22,000 in hardship withdrawals to pay for expenses related to a natural disaster. Distribution would be exempt from early distribution penalties and may be included in the participant's gross income over a three-year period.
- Increasing contribution limits to SIMPLE IRA plans.
- Creating of a new plan type, called a Starter 401(k) Plan, to encourage new businesses to sponsor a qualified retirement plan for employees.
- Requiring 401(k) and 403(b) plans to cover part-time employees who have worked at least 500 hours throughout two consecutive years.
- Allowing rollovers of leftover 529 account savings (that are at least 15 years old) into a Roth IRA without penalty, provided the rollover amounts fall within IRA limits.

Provisions aimed at preserving retirement income include:

- Revising required minimum distribution rules to facilitate use of annuities in retirement plans.
- Repealing certain barriers to qualified longevity annuity contracts (QLACs).
- Eliminating penalty on partial annuitization.

Provisions aimed at simplifying administrative rules include:

- Permitting plan sponsors to forgo collection of overpayments, beginning in 2023.
- Reducing excise tax for failure to pay required minimum distributions, beginning in 2023.
- Increasing to \$7,000 the threshold for involuntary distributions (IVDs), beginning in 2024.
- Expanding the IRS's correction program to permit self-correction of most participant loan errors. The IRS has two years to implement the changes.
- Permitting plan sponsors to rely on employee self-certification for all hardship withdrawals, and applies consistent hardship rules to 403(b) plans beginning in 2023.
- Requiring the DOL to revise its Participant Fee Disclosure regulations within two years to permit more appropriate benchmarks for target date funds and other asset allocation funds.
- Allowing SIMPLE IRAs to include a designated Roth contribution account and permits SEP sponsors to offer employees an election of treat SEP contributions as Roth contributions, beginning in 2023.

We will be keeping up with the latest SECURE 2.0 news and the status of its related provisions. We will also provide information on guidance from the IRS and DOL on how these new rules should be implemented. Be on the lookout for more *Plan Sponsor Bulletins* on this and other timely topics.



Questions?

Please contact your Mutual of America representative with questions regarding this *Plan Sponsor Bulletin* or how to help plan participants as they prepare for retirement.