

SECURE 2.0 Act: Provisions for Implementation in 2025



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The SECURE 2.0 Act introduced several sweeping changes to how Americans can use retirement savings plans. Some provisions have already taken effect, while others are scheduled for implementation in 2025 and beyond. Financial advisors and plan sponsors should be aware of these upcoming provisions, as many will require a decision on whether to opt in or out. Here's a summary of the key changes for 2025 that financial advisors and plan sponsors need to know.

Increased Catch-Up Contribution Limits for Ages 60-63: The SECURE 2.0 Act increased the maximum catch-up contribution limit for eligible participants who will attain ages 60, 61, 62, or 63 (but not age 64) during the year. The increased limit is the greater of \$10,000 or 150% of the age 50 catch-up limit in effect for the year as adjusted for cost-of-living increases. While the intention of this change is to improve retirement readiness for employees who are closest to attaining retirement age, it adds a new layer of administrative complexity for plans.

This will require plan providers to not only track participants that are age 50 or older but also participants that will attain ages 60, 61, 62, or 63 during the calendar year to ensure that the applicable limit is properly applied. Plans will need to track participants that reach age 64 during the calendar year who “age out” of the higher catch-up limit and will again be subject to the age 50 catch-up limit. Along with the required participant notices, plans will want to send additional communication to participants that will reach age 60 or pass age 63 to help them understand the limit that will apply for a particular year. Receiving accurate dates of birth will be critical to properly administering this provision. Payroll providers will need to be able to support this to make it happen. It is unclear whether this provision is mandatory or optional so we suggest preparing to implement.

Mandatory Automatic Enrollment for New Plans: The SECURE 2.0 Act requires all new 401(k) and 403(b) plans adopted after December 29, 2022 to automatically enroll participants at 3%-10% and increase the rate by one percent per year to at least 10%, but no more than 15%. Employees must have at least 90 days to opt out and take a distribution of any automatic deferrals. This does not apply to SIMPLE plans (they're IRAs), but does apply to adoption of a MEP after the enactment date (based on the employers' adoption, not the effective date of the MEP). It is important to review all new plans that were established after December 29, 2022 for these new required rules. Payroll and notice delivery will be critical for compliance. While there are few exemptions, a workforce of under 10 employees and a company that is less than 3 years old must comply as soon as the exemption no longer exists for you.



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Part-Time Worker Eligibility Expansion: The SECURE 2.0 Act expanded eligibility for part-time workers to participate in 401(k) and 403(b) plans. Starting in 2025, part-time workers who work for at least 500 hours per year for two consecutive years must be eligible to make employee contributions to their employer's defined contribution retirement plan. Companies can only ignore service for vesting and eligibility prior to 2023 making 2025 the first plan year that is affected by this rule. Employers are not required to provide an employer contribution to these long-term part-time participants.

The following distribution provisions require an opt-in by plan sponsors. Those include:

Terminally Ill Individual Distributions: For distributions from both IRAs and employer-sponsored retirement plans (i.e., 401(k), 403(b)) for those participants who are terminally ill. This provides an exception to the 10% early distribution tax for a distribution to a terminally ill individual. Participants must provide evidence as required by the plan administrator and self-certification is not allowable. This is not a special distribution option but rather an exception to the 10% early withdrawal penalty. (It is possible a special distribution option will be added for this in the future.)

Domestic Abuse Distributions: Plans may permit withdrawals from a qualified plan for participants who are victims of physical, psychological, sexual, emotional, or economic domestic abuse within one year from the date of the abuse by a spouse or domestic partner. The participant must self-certify their status and can request a distribution for up to the lesser of \$10,000—indexed for inflation—or 50% of the participant's vested account. The withdrawal is exempt from the 10% early withdrawal penalty. Amounts taken as a distribution may be recontributed to applicable eligible retirement plans, subject to certain requirements. (Note: These distributions are not available for any plans that require spousal consent for distributions.)

Federal Disaster Distributions: For participants with a principal residence in a federally declared major disaster area and who experience losses arising from the disaster. This provision is effective for distributions that occur on or after January 26, 2021 and is limited to \$22,000 per disaster. The withdraw may be repaid in the 3-year period after the distribution. Inclusion of the distribution into your income may be spread over 3 years for tax purposes. Additionally, amounts distributed prior to a disaster to purchase a home would be permitted to be recontributed and an employer would be permitted to provide for a larger amount to be borrowed from a plan by affected individuals and for additional time for repayment of plan loans owed by affected individuals. The withdraw would be exempt from the 10% early withdrawal penalty as well.

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Student Loan Matching: Starting in 2024, employers had the option to make matching contributions to retirement plans based on an employee's student loan payments. While not mandatory, this provision may see increased adoption in 2025 with more guidance from the Treasury and IRS on how to administer this provision, and as more employers become aware of it and its potential benefits for attracting and retaining talent. Despite new guidance, there are still several administrative challenges to this provision so we advise caution on implementation.

Roth Catch-Up Contributions: This provision was originally effective in 2024 but delayed until 2026. The new rule requires catch-up contributions for those earning over \$145,000 (indexed for inflation) to be made on a Roth (after-tax) basis. More guidance from the Treasury and IRS is expected.

RMS will be discussing these provisions with our clients over the coming months as careful consideration should be given to a provision before adoption. If you have any questions on how these will impact your plan, please reach out to your Account Executive to discuss.



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