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INVESTMENT ADVISORS

Retirement Plans

Secure Act 2.0: What 401(k) Plan Managers Need to Know for 2024

Leverage new provisions to help reduce administrative hassle, provide employees with financial support, and encourage positive savings behaviors.

Required Secure Act Provisions for 2024

The required changes for 2024 are minimal.

Long-term, Part-time Employees

SECURE 1.0 initiated a change to how long-term, part-time employees are treated in terms of eligibility and SECURE 2.0 refines that change. Effective January 1st, 2024, 401(k) plans must allow employees who have worked 500 hours or more in the past three consecutive 12-month periods to contribute elective deferrals to the plan. **Note that in 2025, this will change to 2 years.*

Delayed for 2 Years

Catch-Up Contribution Changes

Employees looking to maximize their retirement savings with catch-up contributions should be aware that if they earn more than $145,000 in W-2 wages in 2023, their catch-up contributions are now required to be Roth. If the employee earns less than $145,000, they can choose either pre-tax or Roth contribution type. Note that plans need to allow for Roth contributions for this option to comply with this mandate.

UPDATE:

On August 25th, the IRS released Notice 2023-62 giving employers two additional years to comply. This delay in the effective date is to allow retirement plans and sponsors to smoothly transition and comply with the new policy. As per the SECURE 2.0 Act, section 603(c), the provisions of section 603 will apply to taxable years beginning after December 31st, 2023. The IRS considers the first two taxable years following this date as an administrative transition period. **As a result, the new effective date for the requirement is projected to be January 1st, 2026.**

Required provisions may need additional explanation. Contact us to discuss your specific plan.

Optional Secure Act Provisions for 2024

While this is not a complete list of the optional provisions to consider in 2024, this short list includes several of the most anticipated. We want to focus on the provisions that may reduce your administrative hassle, provide employees with relief during compromising situations and could encourage positive savings behaviors.

Reduce Administrative Hassle

Account Transfers for Former Employees

Retaining 401(k) accounts of former employees can be onerous for plan sponsors, particularly if the accounts are small and inactive. However, there is a new solution available that helps facilitate the transfer of accounts to the former employees' new employers.

Automatic portability is a transaction process that allows 401(k) accounts with balances between $1,000 and $7,000 to be transferred to the new employer's retirement plan automatically, without involving the former employee. This can save plan sponsors time and resources, while also ensuring that former employees' retirement savings remain with the individual.

Fortunately, many recordkeepers and service providers can help facilitate smooth 401(k) account transfers. From locating missing plan participants to handling necessary paperwork, the right partner may help reduce costs, improve efficiency and enhance employee satisfaction.

Safe Harbor IRA Upgraded

Previously, plan sponsors could only transfer former employees' 401(k) accounts to a Safe Harbor IRA if the balance was not more than $5,000. The revised provision increased that amount to $7,000. This may help improve plan administration by reducing head count to avoid plan audits, additional fees and issues caused by missing participants.

Provide Employees with Support

Help Workers Access $1,000 for Emergencies

SECURE Act 2.0 offers a simple solution for employees who need to access retirement savings for personal or family emergencies. This provision allows workers to withdraw up to $1,000 from their retirement savings without incurring the typical 10% excise tax penalty.

Even better, the withdrawal is not a loan and requires little additional paperwork or administrative burden. Employees can take advantage of this one-time distribution and optionally repay it within three years. This feature could prove particularly useful for busy HR professionals and 401(k) administrators, looking to streamline processes and save time.

Payroll Deducted Emergency Savings

This "side-car" emergency account can provide employees with further security and peace of mind in the face of financial uncertainty.

Under this provision, employers can automatically enroll their employees in a savings account that allows up to 3% of their wages to be saved for emergencies. Account contributions are made on a Roth basis and are capped at $2,500. Once the cap is reached, additional contributions can be directed into the Roth account within the plan. The accounts are also subject to annual matching contributions. Additionally, the first four withdrawals from the account each year are not subject to any fees or charges. These emergency savings accounts are for non-highly compensated employees only.

Penalty-Free Withdrawals Available for Victims of Domestic Abuse

Domestic abuse survivors can withdraw up to $10,000 (or 50% of their retirement fund, whichever is lesser) without penalty. This initiative provides much needed financial security for survivors.

Natural Disasters and Financial Response

In the unfortunate event of a natural disaster, this new measure provides relief for those dealing with it. Individuals can withdraw up to $22,000 from their retirement plan or IRAs without facing the 10% early withdrawal tax penalty. This amount can be paid back over three years or the recipient can pay taxes on the distribution, spread out over three tax years.

Updated Feburuary 2024

19-page SECURE Act Summary from the Senate Finance Committee

Guidance on Section 603 of the SECURE 2.0 Act | Notice 2023-62

Miscellaneous Changes Under the SECURE 2.0 Act of 2022 | Notice 2024-2

Encourage Positive Savings Behaviors

Auto-Features and Honest Mistakes Are Now Protected

Auto-features have been proven over and over to help all workers save for retirement. In that spirit, this provision provides a grace period for correcting certain retirement plan errors. Plan sponsors now have 9 ½ months after the close of each plan year to rectify mistakes related to default enrollment or matching contributions without facing any penalty.

Matching Student Loans

For employees who are paying down student loans, employers will be able to apply the retirement plan's matching formula to that repayment amount and deposit the match into the workplace retirement savings plan.

As a 401(k) plan manager or employer, you have the opportunity to take advantage of the SECURE Act 2.0 provisions to reduce administrative hassle, encourage positive savings behaviors and enhance financial confidence for your employees. Reach out to us today to learn more about how the new legislation can benefit your plan. Don't miss out on this chance to make a real impact on your employees' future!

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