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The Latest Changes and Updates to SECURE 2.0

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As we've previously advised you, the SECURE 2.0 Act of 2022 ("SECURE 2.0" or "the Act") included many changes over a number of years that affect employer-sponsored defined contribution plans. Since the passage of the Act, guidance has been trickling out regarding some SECURE 2.0 provisions, and others have been modified or delayed.

Some recent changes include the following:

Extended deadline for amendments

The deadline for amending retirement plans to comply with the SECURE 2.0 changes was extended late last year. Most retirement plans now have until December 31, 2026, to amend (collectively-bargained plans have until December 31, 2028, and governmental plans have until December 31, 2029). This does not affect the deadline by which provisions must be administratively implemented, but does give plan sponsors additional time to amend their plan documents.

Additional catch-up contribution opportunities

Currently, the catch-up contribution limits for certain plans are indexed for inflation and apply to employees who have reached the age of 50. SECURE 2.0 increases catch-up contribution limits for individuals aged 60-63 to the greater of: (1) $10,000 (indexed for inflation), or (2) 50% more than the regular catch-up contribution limit in effect for 2024, effective for plan years beginning on or after January 1, 2025. Because the regular catch-up contribution limit for 2024 is $7,500, we anticipate that the 50% rule will apply, and the increased catch-up limit for individuals aged 60-63 will be at least $11,250 (150% of $7,500).

Many recordkeepers and payroll providers are preparing for this change now and may be contacting plans to determine if the plan is adopting this change or opting out. Many plan documents (including the Varnum pre-approved plan documents) incorporate the catch-up contribution limits by reference to Code §414(v), which will automatically include the increased limits for participants aged 60- 63 when they become effective. We anticipate that most, if not all, clients will want to include the increased catch-up limits to allow employees closer to retirement age to save more for retirement.

Plan sponsors may want to check with their payroll providers to confirm that they are on track to implement this change by January 1, 2025.

Increase in involuntary cash-out threshold

Prior to SECURE 2.0, if a terminated participant had a vested benefit between $1,000 and $5,000, plans could roll this amount over to an IRA without the participant's consent. SECURE 2.0 allows plans to increase the $5,000 involuntary cash-out limit amount to $7,000, effective for distributions made after December 31, 2023. Your recordkeeper has likely already contacted you about this change. This is also a change that we believe most clients will or have already made and can ease plan administration. Note that a plan administrator is not *required* to cash-out terminated participants. An increase in the cash-out limit from $5,000 to $7,000 should be reflected in your plan documents and distribution policies.

Other changes to catch-up contributions delayed

If a defined contribution plan permits participants who have attained age 50 to make catch-up contributions, those must be made on a Roth basis for participants who earn at least $145,000 (indexed after 2024) or more in the prior year. This change could significantly complicate plan administration, and professionals have been asking for additional guidance with respect to its implementation. Perhaps with an eye toward allowing time for such guidance, this provision has been delayed to 2026.

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