SECURE 2.0

Important Upcoming Retirement Plan Changes

In December 2022, Congress passed a sweeping piece of legislation known as "SECURE 2.0" that made significant changes to retirement plans. While some of these changes have already taken effect, others are scheduled to be implemented in the coming years. Some of the changes are mandatory, and others are optional. **Regardless of the effective date of the change, plan sponsors must amend their retirement plans for SECURE 2.0 provisions by the end of 2026.**

Pentegra is here to help you navigate these changes and ensure your plan is compliant with the evolving rules. You can reference additional resources about SECURE 2.0 on our website:
The SECURE 2.0 Act of 2022 - Pentegra Retirement Services

Here are a few important upcoming changes and reminders for several sections requiring administrative attention:

Mandatory Change: Roth Catch-Up Contributions for Employees Making $145,000+

What's Changing: Effective January 1, 2026, employees who made $145,000 or more in the prior calendar year will be required to make any catch-up contributions as after-tax Roth contributions.

Action Needed:

- If your plan does not already offer Roth contributions, start the process to add a Roth feature (otherwise no catch-up contributions will be available to anyone making more than $145,000). Keep in mind that if you don't preemptively add Roth to your plan, you may need to remove catch-up contributions for all employees.
- Next, run a report at the end of the plan year and identify the employees with FICA wages over $145,000 who are turning age 50 during the next year and notify them that they are required to make catch-up contributions as Roth after-tax contributions.
- Work with your payroll provider to see what options they have available to help identify the impacted employees, and ensure their catch-up contributions are Roth.

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Mandatory Change: Long-Term Part-Time (LTPT) Employee Eligibility

What's Changing: Effective January 1, 2025, employees who work at least 500 hours per year for 2 consecutive years are eligible to make elective deferrals unless they are legitimately excluded as a class unrelated to the number of hours worked.

Action Needed:

- Run a report and identify any employees who are not eligible for the plan who worked at least 500 hours in the previous 2 plan years.
- Ensure they are provided with the opportunity to make employee elective deferrals to the retirement plan (unless they are excluded as part of a classification that is not deemed to be a proxy for age or service).
- Plan sponsors have often amended the plan document to allow all employees to participate. Ensure you are following the provisions of the plan document and the new LTPT rule and notifying all eligible employees about their opportunity to make deferrals.
- Employees who only qualify under the new rules are not automatically eligible for any employer contributions, but safe harbor plans may need to make a clear election on their eligibility for the safe harbor contribution.
- Your recordkeeper may ask you to identify employees who become eligible under these new LTPT rules to be coded differently so they can be tracked accurately.
- You can also consider amending your plan to reduce the administrative burdens associated with this provision.

Mandatory Change: Required Minimum Distribution Age Increased from 72 to 73

What's Changing: Effective January 1, 2023, the Required Minimum Distribution (RMD) age has been increased to age 73. Effective January 1, 2033, the RMD age will increase to age 75.

Action Needed:

- Check to make sure your plan and recordkeeper are accurately processing Required Minimum Distributions each year.

Voluntary Change: Additional Catch-up Contributions for Employees Ages 60-63

What's Changing: Effective January 1, 2025, retirement plans may elect to increase catch-up contribution limits for participants turning 60-63 to the greater of $10,000 or 150% of the regular catch-up limit for that year. Employees are eligible for this "super catch-up" only during the calendar year in which they reach age 60, 61, 62, and 63. The super catch-up employee contribution limit for most 401(k) and 403(b) plans is $11,250 for eligible employees in 2025.

Action Needed:

- Once you have added this provision, work with your payroll provider to allow for the additional contributions and notify employees of the feature.
  - Many plans have had this additional catch-up limit added automatically if you already allow for age-50+ catch-up contributions

Voluntary Change: Involuntary Force-Out Limit Increased to $7,000

What's Changing: Effective January 1, 2024, retirement plans may elect to increase the force-out limit from $5,000 to $7,000. Terminated employees who have a balance in the retirement plan below the threshold can be forced out of the plan and their assets distributed to an IRA or cashed out to the participant.

Action Needed:

- Check your plan document to see if you currently permit involuntary force-out distributions for terminated employees with small balances.
- Check with your TPA or Recordkeeper to see if your plan automatically increased the limit to $7,000 if you already allow for these force-outs
    - Forcing out terminated participants with small balances helps keep the number of participants (and costs) down.

Pentegra is here to help you make the most of your retirement plan. If Pentegra manages your plan document, we will reach out to discuss all the elections you have selected to ensure the plan is amended in an accurate and timely manner.

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