GARDECAPITAL

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SECURE 2.0 Act: A Review of Changes for 2025 and Beyond

The SECURE 2.0 Act, enacted 12/29/2022 by Congress, introduced new provisions and requirements for retirement plan sponsors. Both the Department of Labor and the IRS play essential roles in overseeing the implementation of this legislation. Some provisions went into effect immediately, while others required further definition and input. Here we briefly review the provisions (required and voluntary) that went into effect in 2024 and those that will be implemented in 2025 and beyond.

New for 2024

Elimination of Roth 401(k) RMD (Required) – Prior to the Secure Act, Roth 401(k)s were subject to the same RMD rules as traditional 401(k)s. Beginning this year, the SECURE 2.0 Act eliminates RMDs for qualified employer Roth plan accounts. Owners of these Roth 401(k) accounts are no longer required to take RMDs.

Emergency $1000 Withdrawal Provision (Required) – This provision permits participants to withdraw up to $1,000 in a year from their retirement account to pay for an emergency. They must repay the $1,000 within three years and they may repay the account through ordinary deferrals. A sponsor may rely on participant self-certification that they are using the money for an emergency.

Emergency Savings Account (Voluntary) - SECURE 2.0 Act allows for the creation of emergency savings accounts within 401(k) plans. Employees can contribute up to $2,500 to these accounts, and withdrawals for emergencies can be made without penalty. This aims to help employees build a safety net while still saving for retirement.

Student Loan Repayment Matching (Voluntary) - Employers can now match employee student loan payments with contributions to the employee's 401(k) plan. This is intended to help employees who are repaying student loans continue to save for retirement simultaneously.

New for 2025

Automatic 401(k) Employee Enrollment (Required) – Newer 401(k) plans (plans established on or after 12/29/22) are required to include automatic enrollment with employees automatically enrolled at a rate of at least 3% but not more than 10%. This percentage will increase by 1% each year until it reaches 10%, unless the employee opts out. This provision aims to increase participation rates in retirement savings plans.

Higher Catch-up Limit for Employees Aged 60 to 63 (Voluntary) – The limit on catch-up contributions will increase to the greater of $10,000 or 150% of the 2024 regular catch-up limit for participants aged 60 to 63. In 2024, the catch-up contribution limit is $7,500. In 2025, the catch-up limit for those aged 60-63 will be $11,250 (150% x $7,500). The IRS provided guidance for 2025 confirming the $11,250 catch-up contribution limit in early November. However, plan sponsors should be aware that many industry experts believe that bill will be redrafted to index the limit to inflation rather than being tied to the 2024 contribution limit. Stay tuned for developments on this.

Note that the employee deferral limits have also been increased from the 2024 levels. Participants will be able to defer up to $23,500 into their plans up from $23,000 in 2024. For those participants 50 years old or older, the base catch-up contribution remains the same at $7,500 subject to the adjustments noted above for those aged 60 to 63.

Long-Term Part-Time (LTPT) Employee Eligibility (Required) - Long-term, part-time employees must now be considered for eligibility in retirement plans. The eligibility criteria to allow long- term, part-time workers to participate in an employer's 401(k) plan will be reduced to two years (from three years) and extends these rules to ERISA-covered 403(b) plans. Employees must still work at least 500 hours in each of those years.

2026 and Beyond

There are other aspects of SECURE 2.0 that are still on the drawing board. One such provision is the requirement that all employees earning over a certain amount in the prior year must make catch-up contributions with Roth (after-tax) dollars. This particular element has been pushed out to 2026 or later as details about the implementation are yet to be determined.

While we've highlighted some of the more impactful provisions, please keep in mind that this is not an exhaustive list. Also, there are detailed requirements that must be complied with to implement these provisions. If you have any questions about these topics, please reach out to us at any time. We'd be happy to discuss these changes with you, and help you make the right decisions for your retirement plan.

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