SLAVIC401K

# Secure Act 2.0 –

## Retirement Plan Administration Changes and Regulatory Updates

Webinar

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# Agenda

SECURE 2.0 Overview of Select Provisions and their Implications to Plan Sponsors and Participants

- Required Minimum Distribution (RMD)
- Self-Certification for Hardship Distributions
- Roth Catch-Up Changes
- Long-term Part-time Employees
- Q&A



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# Provisions at a Glance

| Provision | Mandatory/ Optional | Effective Date |
|---|---|---|
| Required Minimum Distributions (RMDs) - Increase in age for required beginning date for mandatory distributions | Mandatory | January 1, 2023 |
| RMD - reduction in excise tax for RMD Failure | Mandatory | January 1, 2023 |
| Hardship Distribution - Reliance on employee certifying that deemed Hardship Distribution conditions are met | Optional | January 1, 2023 |
| Roth Catch-Up Contributions – Roth only catch-up contributions for High-Paid Employees | Mandatory | January 1, 2024 (*two-year transition period now applies through December 31, 2025) |
| Long-Term Part-Time Employee LTPT (SECURE 1.0 and SECURE 2.0) | Mandatory | January 1, 2024- SECURE 1.0<br>January 1, 2025 -SECURE 2.0 |
| RMD - No pre-death RMDs from Roth plans | Mandatory | January 1, 2024 |

# SECURE 2.0

- SECURE 2.0 Act of 2022 (“SECURE 2.0”) signed into law on December 29, 2022 (“date of enactment”)
- Mandatory and many optional provisions
- Some changes effective immediately, but also many with delayed effective dates
- New compliance requirements created
- Several technical corrections needed by Congress
- Industry is pushing for guidance and delayed effective dates
- Deadline for amending plans is December 31, 2025
- Same deadlines now also apply for SECURE 1.0, CARES Act, and Taxpayer Certainty and Disaster Tax Relief Act of 2020
    - But plans must be operated in accordance with applicable requirements pending amendment

# Required Minimum Distributions (RMDs)

## Increased RMD Age

- **Applicability/Effective Date:** Optional/mandatory for all retirement plans and traditional IRAs for employees who reach age 72 after December 31, 2022
- **Description:** Required minimum distribution (RMD) age increased:
  - From age 72 to age 73 for distribution beginning January 1, 2023
    - Applies to participants who turned age 72 after December 31, 2022, and will turn age 73 before January 1, 2033
  - From age 73 to age 75 beginning January 1, 2033
    - Applies to participants who turn 74 after December 31, 2032

*Technical correction will be required for participants born in 1959 (will turn 73 before January 1, 2033, and 74 after December 31, 2032). These individuals have an RMD age of both 73 and 75.*

# Required Minimum Distributions (RMDs)

## Increased RMD Age

Applicable RMD age based on the participant's birth date.

| Birth Date | Applicable RMD Age |
|---|---|
| Before July 1, 1949 | 70 ½ |
| 7/1/1949 – 12/31/1950 | 72 |
| 1/1/1951 – 12/31/1959* | 73 |
| 1960 and later | 75 |

*Technical correction will be required for  participants born in 1959 (will turn 73 before January 1, 2033, and 74 after December 31, 2032). These individuals have an RMD age of both 73 and 75.*

# Required Minimum Distributions (RMDs) –

## Roth Account not subject to RMD

**Applicability/Effective Date:** Beginning in 2024

- **Description:**
  - Pre-death RMDs will no longer be required from designated 401(k) Roth accounts.
  - A participant must still take their RMDs from designated Roth accounts for 2023, including those with a required beginning date of April 1, 2024.

## Reduced Penalties

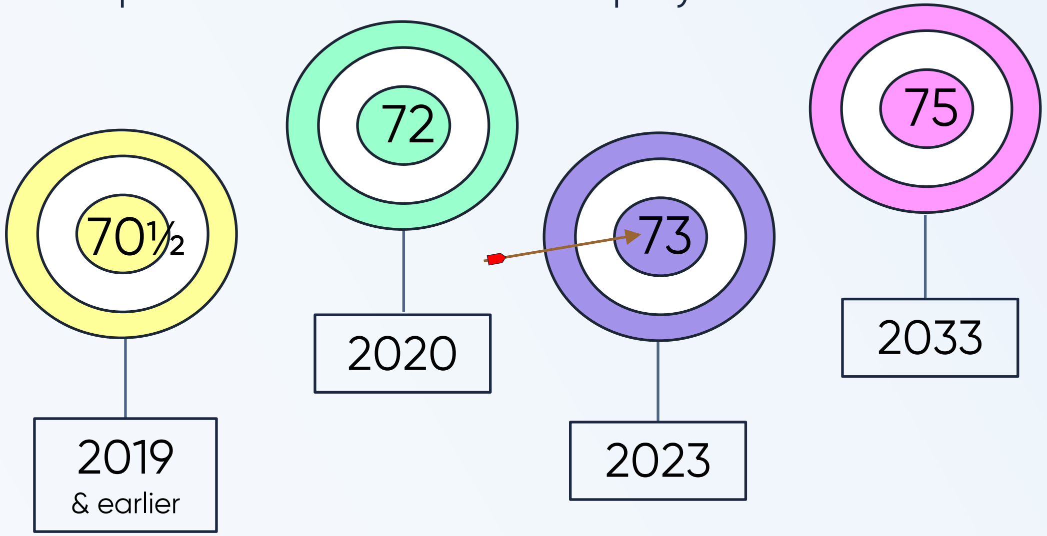
**Applicability/Effective Date:** Beginning after December 31, 2023, but not with respect to distributions required before January 1, 2024.

- **Description:**
  - The excise tax is reduced from 50% of the amount the shortfall to 25%, and in some cases 10%, if corrected timely.
  - A participant or plan administrator can still apply for a waiver of the penalty.

# Required Minimum Distributions (RMDs)

## Plan Sponsor Actions:

- Employers and Plan Sponsors annually review census data and report any changes to Slavic
    - Census Data = participant ownership, address, dates of birth, hire and term, etc.
    - Census reporting is available online - Slavic Sponsor Portal & Slavic Employer Portal
- Good data is required to administer RMDs
    - Date of Birth
    - Ownership %
    - Mailing Address
    - Employment Status




## Plan Sponsor Considerations:

- Mergers & RMDs
    - New merge-out RMD report in 2024!
    - Recommend for new MEP adopters with existing plans to process RMDs prior to merger
    - Example: Plan merges in November 2023 and no RMD information is received by the plan, the 12/31/2022 balance in the participant account is $0 & no RMD is processed. Participant later reports RMD was missed

# Required Minimum Distributions (RMDs)

## Slavic Timeline for 2023 RMDs

**Q4 2023**

Q4 2023, Slavic communicate to participants "required" for 2023 RMD

Age 73+ (dob 1950):

and > 5% owner/lineal relative, or

and terminated (not active)

**Dec. 2023**

Slavic process RMD forced distributions due 12/31/2023

**Feb. 2024**

Slavic communicate to participants "required" for initial RMD in 2023*

**Mar. 2024**

Slavic process RMD forced distributions due 4/1/2024*

*2023 RMDs processed in 2024 include Roth accounts

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# Required Minimum Distributions (RMDs)

## Slavic Timeline for 2024 RMDs

**Jan. 2024** – Slavic calculates RMD amount for participants age 73+ (dob 1951)

**Q2 2024** – Q2 2024, Slavic communicates to participants "required" for 2024 RMD

**Dec. 2024** – Slavic process RMD forced distributions due 12/31/2024

**Feb. 2025** – Slavic communicates to participants "required" for initial RMD in 2024

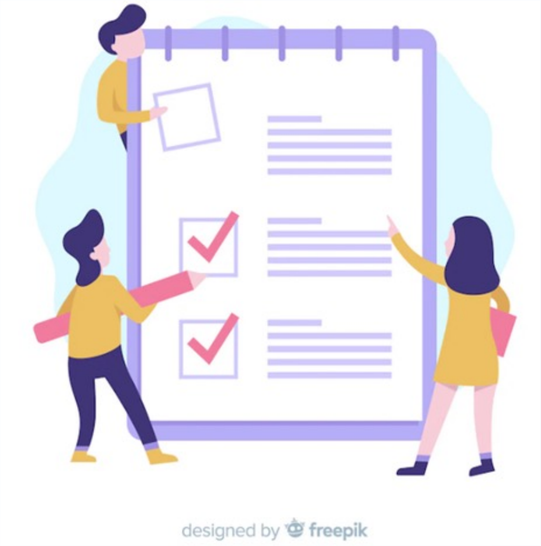
**Mar. 2025** – Slavic process RMD forced distributions due 4/1/2025

# Enhancing Retirement Distributions Self-Certification for Hardship Distributions

- **Applicability/Effective Date:**
  - Optional for 401(k) plans for plan years beginning after December 29, 2022
- **Description:** Except when the plan administrator "has actual knowledge to the contrary," a plan administrator may rely on an employee's written certification that a hardship distribution:
  - is for an immediate and heavy financial need
  - does not exceed the amount required to satisfy the financial need
  - the employee has no alternative means reasonably available to satisfy the need
- **Observation:**
  - IRS can issue regulations providing exceptions to this rule when the administrator has actual knowledge contradicting an employee's certification

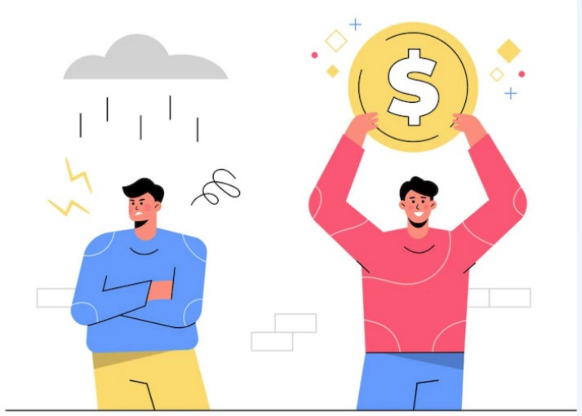
# Enhancing Retirement Distributions
# Self-Certification for Hardship Distributions

- **<u>Slavic Operational Considerations:</u>**




  - Option will be available early 2024
    - Development of online form
    - Enhanced disclosure for self-certification
  - Plan Sponsors will be notified of ability to adopt provision

- **<u>Plan & Participant Benefits:</u>**
  - Reduced distribution processing time
  - Plans no longer verify hardship documentation/financial need
  - Allows hardships to become paperless
    - Environmentally and Cybersecurity Friendly!





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# Enhancing Retirement Distributions Self-Certification for Hardship Distributions

## Slavic Plan Document:

- Plan document will be amended to allow for self-certification by December 31, 2025
- Plan sponsors may opt out

- **Plan Sponsor Action:**
- **None!**

## Non-Slavic Plan Document:

- Work with document provider
- Plan amendment required by December 31, 2025

- **Plan Sponsor Action:**
- Notify Slavic if plan will allow self-certification
- Provide copy of amendment to Slavic

# Roth Catch-Up Contributions

- **Applicability/Effective Date:**
  - Mandatory for 401(k) plans that offer catch-up contributions
  - Effective for tax years beginning after 2023 (January 1, 2024); however, IRS issued Notice 2023-62 on 8/25/2023 providing a two-year transition period through December 31, 2025

- **Description:** Requires catch-up contributions made by a participant with wages above $145,000 (a "High-Paid Employee") to be made on a Roth (after-tax) basis (rather than on a traditional pre-tax basis)
  - During two-year transition period, plans may continue to allow pre-tax catch-up contributions by High-Paid Employees

# Roth Catch-Up Contributions

- **Wages for determining "High-Paid Employees":**
  - Wages defined under Code section 3121(a) (FICA wages/W2 Box 5 wages)
  - If Congress does not make a technical correction to SECURE 2.0, then elective deferrals may need to be deducted from the amount in Box 5, pending IRS guidance
  - Amount determined during the immediately preceding plan year (e.g., 2025 for catch-up contributions made in 2026)

# Roth Catch-Up: Operational Aspects

- **Objective:**

- Collectively administer High-Paid Employee catch-up contributions in the least disruptive manner and make the process seamless for participants.

- **Challenge:**

- Payroll and 401k recordkeeping system updates with pending regulations
- Identify High-Paid Employee wages
- Track High-Paid Employees
- Process contributions
- Communicate
- More complexity for multiple-employer plans (transient employers, wages)
- Add processes for onboarding new payroll client




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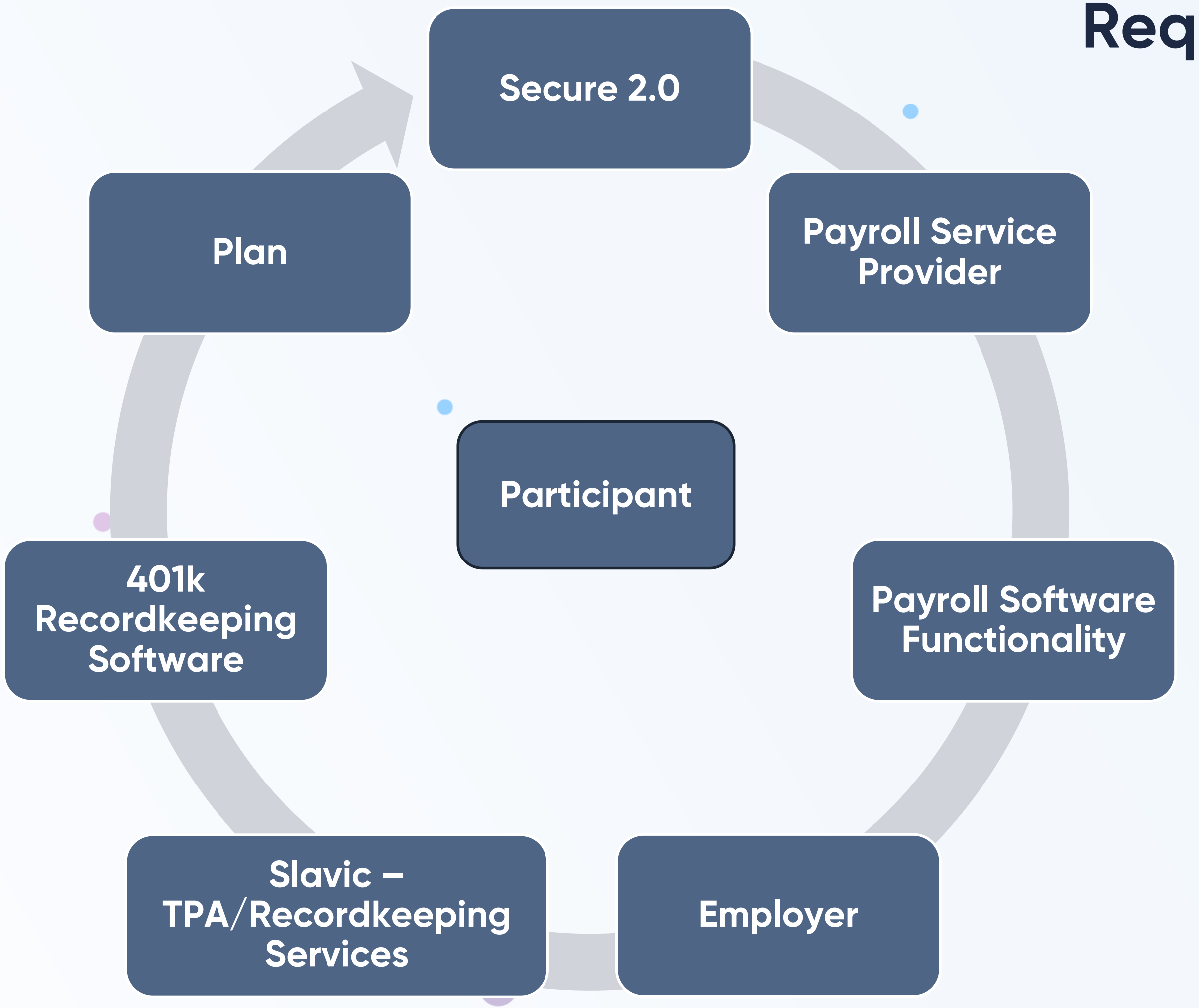
# Roth Catch-Up Contributions (cont.)

## Required Players

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# Roth Catch-Up Contributions (cont.)

- **<u>Slavic Current Process for Administering Catch-Up:</u>**
  - Single Spillover Contribution Election:
    - <u>One single election.</u> Once reach annual limit, elections will continue as catch-up contributions until that limit is reached.
    - Catch-up contribution begins only after participant reaches the annual deferral limit on regular contributions (i.e. Not concurrently).

- Benefits:
  - Streamlined
  - Only one participant election required
  - Integrates with payroll software



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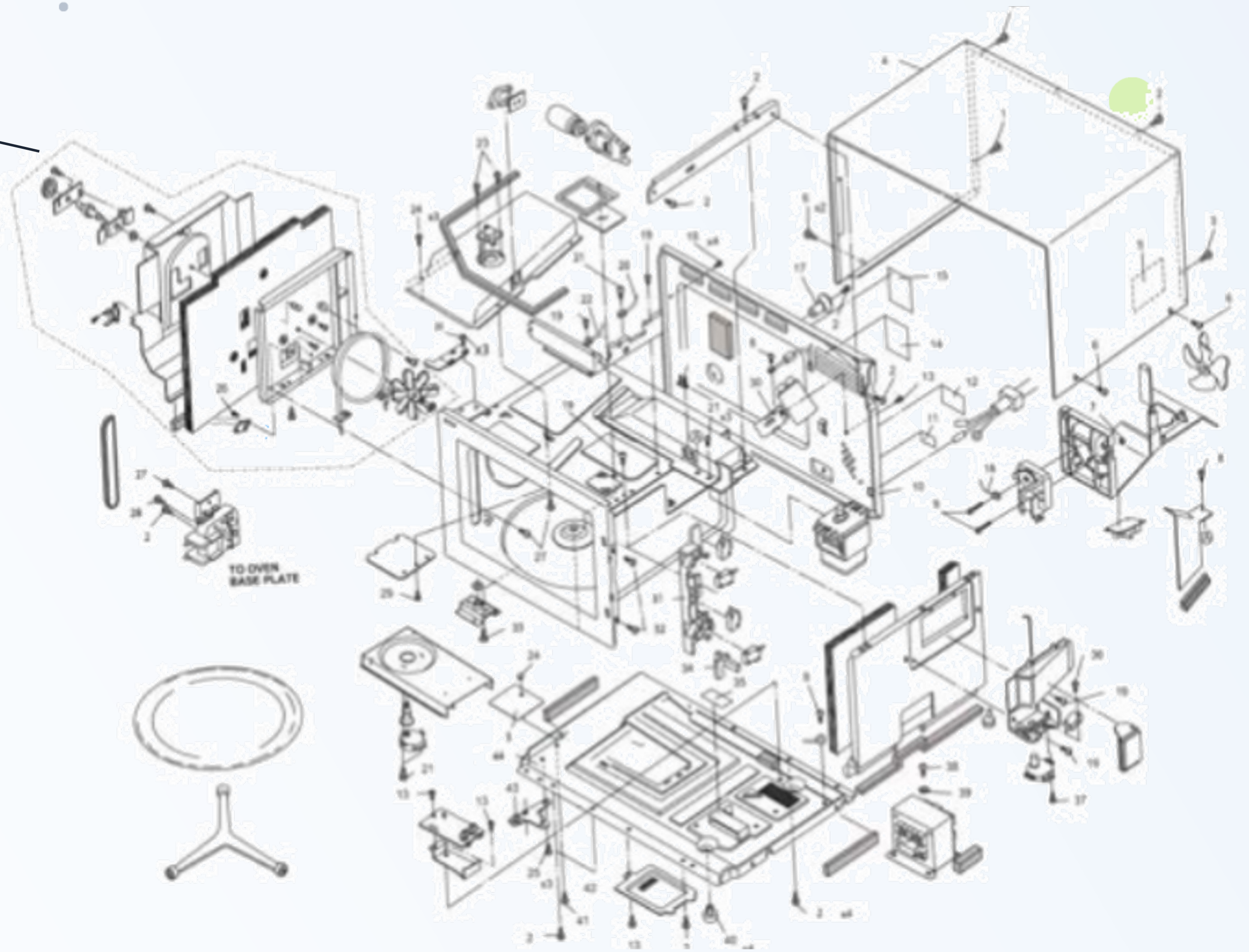
# Roth Catch-Up

Initial
Operational Rendering
for Roth Catch-Up



# Roth Catch-Up Contributions (cont.)

## Ideal Process: Through Payroll Software:

- **Payroll Software SECURE 2.0 Functionality:**
  - Identify and Track High-Paid Employees
    - Identify the correct wages in the prior year from employer sponsoring plan. Tag in system.
  - Switch High-Paid Employees pretax regular contribution election to Roth bucket for catch-up
    - In order to maintain streamline approach, where only one election is required, the payroll will need to switch automatically the catch-up from pre-tax to Roth
- **Why payroll software functionality?**
  - Tax implications (pretax vs post-tax)
  - Payroll Software currently:
    - Apply pre-tax and Roth deferral rates
    - Track Catch-up eligible participants
    - Monitor 402(g) limit


Scott Roth of the Utah Jazz shoots against the Atlanta Hawks



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# Roth Catch-Up Contributions (cont.)

- **Plan Sponsor Considerations:**
  1) Stay tuned  to new regulatory developments
  2) Communicate with your payroll vendor how they are preparing for Roth Catch-up
  3) Start reviewing your processes for boarding new clients with respect to identifying High Paid Employees.
  4) Consider what information needs to be communicate4d to your employers as they are onboarded.
  5) Payroll Software:  Familiarize with updated SECURE 2.0 capabilities and functionality

# Enhanced Retirement Plan Savings – Long-Term, Part-Time Employees

- **Background:** Under SECURE 1.0:
    - The first time a LTPT employee will be eligible to participate in a plan under SECURE 1.0 is January 1, 2024
    - Plans must allow part-time workers to make elective deferrals to the plan after completing a minimum of 500 hours in three (3) consecutive 12-month periods
    - Plans can impose age 21 and standard entry dates.
    - Plans on Slavic plan document will follow the plan's standard age and entry requirements (designated in the adoption agreement)
    - Pre-2021 service is disregarded for eligibility and vesting purposes

# Enhanced Retirement Plan Savings – Long-Term, Part-Time Employees

- **<u>Background:</u>** Under SECURE 2.0:
  - The first time a LTPT employee will be eligible for a plan under SECURE 2.0 is January 1, 2025
  - Plans must allow part-time workers to defer to the plan after working a minimum of 500 hours in two (2) consecutive 12-month periods
  - Plans on Slavic plan document will follow the plan's standard age and entry requirements (designated in the adoption agreement)
  - Plans can impose age 21 and standard entry dates
  - Pre-2021 service is disregarded for eligibility purposes (absent further guidance from the IRS to the contrary)
  - Pre-2021 service is disregarded for vesting purposes

# Enhanced Retirement Plan Savings – Long-Term Part-Time Employees (cont.)

- Plan can exclude LTPT employees from:
    - **Employer Contributions** (including safe harbor contribution).
    - Nondiscrimination Testing
        - ADP/ACP
        - Coverage
        - 401(a)(4)
    - Top Heavy
        - Excluded from determining whether the plan is top heavy
        - Excluded from the vesting and benefit provisions of the top-heavy rules

# Enhanced Retirement Plan Savings – Long-Term Part-Time Employees (cont.)

- Vesting Years of Service:
  - A year of service for vesting purposes = 500 hours in a calendar year vs. 1000 hours
  - Applies to employees who are eligible to participate solely by reason of the LTPT employee requirements
  - Plans with more generous eligibility requirements will not have LTPT employees. Example: a plan with a six-month service requirement.

# Enhanced Retirement Plan Savings – Long-Term Part-Time Employees (cont.)

<u>New LTPT rules do not apply to the following types of employees:</u>

- Employees who do not meet the plan's age requirement by the end of the three or two consecutive 12-month periods
- Employees in plans that allow for a more generous eligibility requirement than the LTPT requirement
- Employees who are covered by collective bargaining agreements
- Employees who become full-time employees or meet plan's normal eligibility requirements (the following plan year)

# Enhanced Retirement Plan Savings – Long-Term Part-Time Employees (cont.)

- Slavic has established a process to track, identify, administer & communicate LTPT employee eligibility

- Identify and Track LTPT Employees
  - Applies to plans with an hours requirement
  - Track employees' years of service for meeting the LTPT requirements
  - Track employees' years of service for vesting requirements
  - Identify LTPT employees
  - Communicate to employees who are ( or will become) - eligible to defer into the plan




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# Enhanced Retirement Plan Savings – Long-Term Part-Time Employees (cont.) –

## LTPT Challenges:

- Receiving accurate current and prior years hours, updated statuses
  - In a Multiple Employer Plan environment, where employers onboard payroll companies continuously throughout the year
- Employer Contribution eligibility
- Change from LTPT to Full-time status

Fun Facts!

- 17.1% of Slavic plans have an hours requirement
- 17.4% of Slavic plans with hours requirement do not currently fund a fixed employer contribution

# Enhanced Retirement Plan Savings – Long-Term Part-Time Employees (cont.) –

- Existing Plans
  - We have been tracking and monitoring participants who may become LTPT eligible starting 2024.
  - Outreach required where information is not conclusive:
    - 2021 -2023 Hours prior to plan start date for ineligible employees
    - Hours not reported
    - Rehire dates not provided
    - Incorrect Dates of Birth

# Enhanced Retirement Plan Savings – Long-Term Part-Time Employees (cont.) –

- Onboarding Plans
  - New Plan Employer Checklist
    - Are there part-time employees?
      - List employees
      - Identify if they worked 500 -999 hours starting 2021
  - Slavic recordkeeping software updated for tracking LTPT eligibility and years of service prior to initial contribution file received
  - Communication outreach

# Enhanced Retirement Plan Savings – Long-Term Part-Time Employees (cont.) –

- <u>Long-Term Part-Time Takeaways</u>
  - Slavic recordkeeping software functionality maintain LTPT information.
  - Importance of accurate hours and employment status.
  - Slavic LTPT communication for plans with hours requirement.
  - Slavic outreach for 2021-2023 census that is not conclusive.
  - Onboarding new plans - Slavic to partner with employer/plan sponsor for required census.
  - Slavic to communicate LTPT eligibility.

- Reconsider setting up new plans with hours requirement when possible, especially if no fixed employer contribution.

# SECURE Act 2.0 Resources

Information, including our newsletters and webinar presentations can be found on our website:

Support Center > Insights & Guides > Category: Compliance

https://slavic401k.com/resources_category/compliance

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Certificate of Completion

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John Smith

*For successfully completing the Webcast*

**SECURE 2.0 Act**

Presented by Slavic401k

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# Thank You!