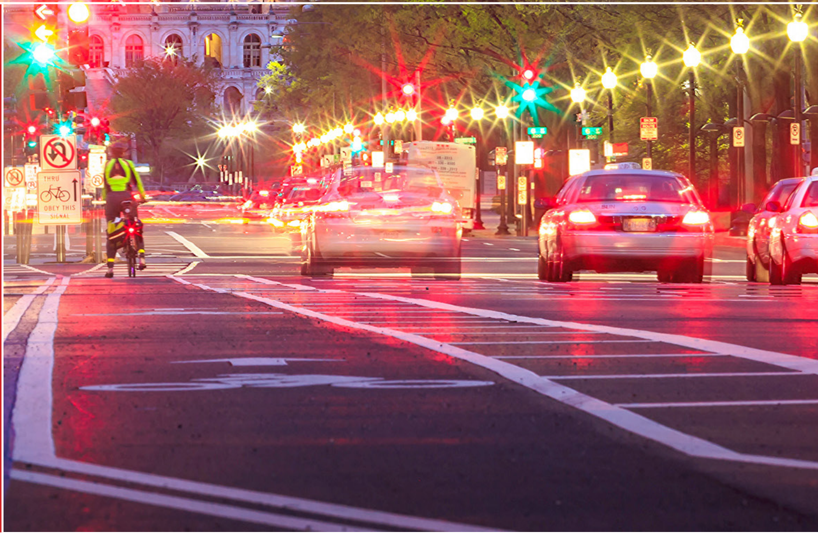
ADP RETIREMENT SERVICES

SECURE 2.0 Act of 2022



ITS IMPACT ON RETIREMENT PLANS AND HELPING AMERICANS SAVE

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 was broad legislation aimed at employer-sponsored plans and brought significant change to retirement savings plans in an effort to encourage more Americans to save for their future. The SECURE 2.0 Act provisions enacted on December 29, 2022, do even more to help increase the ability of Americans to save for retirement.

To help plan sponsors sort through all the changes and the potential impact to their plans, we've highlighted some of the important changes affecting employer-sponsored retirement plans.

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Plan Start-up Tax Credit

- The small business start-up tax credit has increased to cover 100% (up from 50%) of administrative expenses up to $5,000 for the first three years of a plan established by employers with up to 50 employees beginning in the 2023 tax year.
- Provides a significant additional annual tax credit to small businesses for employer contributions to Defined Contribution plans of up to $1,000 per employee. The credit phases out over five years with further reductions for employers between 51 and 100 employees.
- An inactive plan that wants to re-start their plan and is within three years of being established or maintained, may not be eligible for the start-up credit. You should check with your tax advisor.
- For businesses looking to obtain the new plan start-up credit for a SIMPLE IRA plan, the non-highly compensated employee requirements apply. A company will need at least one NHCE to obtain the new plan start credit.

Please see your tax advisor for additional details.

WHAT THIS MEANS

Companies that don't offer a retirement plan as part of their benefits package, may wish to consider taking advantage of the new tax credit by establishing a plan for employees.

Automatic Enrollment Requirement

- Requires any 401(k) or 403(b) plan established after December 29, 2022 to automatically enroll eligible employees beginning in the 2025 plan year.
- Beginning in 2025, employers would be required to automatically enroll new employees in the plan at a pretax contribution level of at least 3% of the employee's pay, but no more than 10%.
- The contribution rate must increase annually by 1% up to at least 10%, but not more than 15% of the employee's pay.
- Employees can opt out or affirmatively elect a different contribution.
- The plan must allow automatically enrolled participants to opt out within 90 days and receive back their contributions.
- Businesses with 10 or fewer employees, new companies in business for less than 3 years, church plans and governmental plans are excluded from this requirement.

WHAT THIS MEANS

Most companies will now be required to automatically enroll eligible employees into their retirement plan, helping more Americans get on the path to retirement readiness.

Expand Catch-up Contributions

- SECURE 2.0 Act increases the annual catch-up contribution amount for participants ages 60-63 to $10,000, beginning in 2025. This higher limit would also be indexed for inflation.
- The existing current law will remain in effect for employees who have reached age 50. In 2023, participants age 50 and older can contribute an extra $7,500 annually to their 401(k) account.
- SECURE 2.0 Act provides that effective January 1, 2026, all catch-up contributions to employer-sponsored qualified retirement plans for participants earning more than $145,000, will be made on a Roth basis.

WHAT THIS MEANS

As employees begin to move closer to retirement age, they will have the option to contribute more to their retirement savings.

Required Minimum Distributions (RMDs)

- SECURE 2.0 Act increases the age requirement for participants to begin taking RMDs from 72 to age 73 in 2023, increasing to age 75 in 2033. In addition, the penalty for not taking an RMD would be reduced from 50%, currently, to 25%, and in some cases to 10%.
- Beginning in 2024, the pre-death required minimum distribution requirement for Roth 401(k) accounts will be eliminated.
- Participants who are 5 percent owners and employed, are still required to take their RMD distribution, however, it will now be based off of age 73 if the participant turned 72 after December 31, 2022.
- The SECURE Act placed a cap of 10 years on most post-death distributions (with certain exceptions) to designated beneficiaries and five years for non-designated beneficiaries (such as an estate) on the time permitted to exhaust the plan or IRA assets.
- Exceptions to the 10-year rule are:
    1. Surviving spouse
    2. Minor child (10-year rule begins to apply on date minor reaches majority)
    3. Disabled person
    4. Chronically ill person
    5. Any person not more than 10 years younger than the employee/IRA owner

WHAT THIS MEANS

By extending the RMD start date, participants now have more time to grow their retirement plans. Employees should evaluate their retirement readiness and determine how long they may need to work and when they expect to begin withdrawing from their retirement savings.

Student Loan Matching Contributions

- Beginning in 2024, student loan payments could count as retirement contributions for the purpose of qualifying for matching contributions in a workplace retirement account. In addition, employers will be able to make contributions to their company retirement plan on behalf of employees paying student loans instead of saving for retirement.
- The matching contributions for student loan payments must vest under the same schedule as other matching contributions. Employees must be eligible for a match in order to receive the student loan matching contribution.
- Allows for beneficial treatment of these contributions for non-discrimination testing.

WHAT THIS MEANS

Allowing student loan payments to count as contributions in a retirement plan, would potentially allow millions of people who have not been able to save for retirement due to their student loan bill to immediately begin saving.

Expedite Long-term, Part-time Employee Eligibility

- The 2019 SECURE Act expanded eligibility for long-term, part-time workers (those who worked at least 500 hours for three consecutive years) to contribute to their employers' 401(k) plan. SECURE 2.0 Act further expedites their eligibility into the plan by shortening the eligibility period from three years to two years for plan years beginning after December 31, 2024.

WHAT THIS MEANS

Long-term, part-time employees will now become eligible sooner under SECURE 2.0 Act, enabling them to begin saving for their future earlier and potentially putting them in a better position to achieve their retirement goals.

Saver's Match

- Beginning in 2027, low to middle-income employees (those earning up to $71,000 per year) will be eligible for a federal matching contribution of up to $2,000 per year that must be deposited in their retirement savings account. The match phases out based on income and replaces the current Saver's Credit.

WHAT THIS MEANS

Employees in low to middle-income tax brackets may benefit from the saver's match, encouraging them to contribute to their company's retirement plan.

Emergency Savings and Withdrawals

- Beginning in 2024, plan participants will be able to withdraw up to $1,000 per year from their retirement savings account for emergency expenses without having to pay the 10% tax penalty for early withdrawal if they're under age 59½. In addition, companies could allow employees to set up an emergency savings account through automatic payroll deductions. These contributions would be limited to $2,500 per year.

WHAT THIS MEANS

The ability to access money from their retirement plan in the case of an emergency could encourage lower to middle-income earners to contribute to their workplace retirement plans sooner.

Starter-k

- Beginning in 2024, SECURE 2.0 Act allows for a deferral-only plan with lower contribution limits that automatically passes non-discrimination and top-heavy testing.
- There are no required matching contributions and annual contributions are limited to $6,000.
- Eligible employees would be automatically enrolled at 3 percent.
- Additional catch-up contributions available for employees 50 and older.

General provisions

- Retirement plan sponsors may find certain SECURE 2.0 Act provisions more relevant than others. Please see the provisions below that may have the most impact on retirement plans:
  1. Tax credits for employers starting a new plan
  2. Automatic Enrollment requirement
  3. Expanded catch-up contributions
  4. Required Minimum Distribution changes
  5. Long-term, part-time employee participation changes
  6. Student loan contributions
  7. Saver's Match
  8. Emergency savings and withdrawals
  9. Starter-k

WHAT THIS MEANS

Plan sponsors should familiarize themselves with the provisions that will most likely impact the administration of their retirement plan.

Additional SECURE 2.0 Act provisions include:

- Allowing matching and NEC contributions to be treated as Roth contributions.
- Creating a national database for Americans to find lost retirement accounts.
- Expanding self-correction opportunities, including for participant loan errors and employee elective deferral failures.
- Requiring the Treasury Secretary to take steps to increase public awareness of the Retirement Savings Contributions Credit (also known as the Saver's Credit), available to low and moderate-income workers.
- Extending to 403(b) retirement plans some of the design features of 401(k) plans.
- Eliminating certain barriers to offering lifetime income annuities as a retirement plan investment option.
- Expanding SIMPLE IRA provisions to allow for increased contributions and contribution types.

Timing of SECURE 2.0 Act provisions

Please see the effective dates below for each of the provisions.

PROVISION	EFFECTIVE DATE
Required Minimum Distributions (RMDs) *(required provision)*	For participants who turn 73 after December 31, 2022
Start-up tax credit *(optional provision)*	January 1, 2023
Employer matching for student loan repayments *(optional provision)*	Plan years beginning after December 31, 2023
Penalty-free emergency savings and withdrawals *(optional provision)*	Plan years beginning after December 31, 2023
Starter-k *(optional provision)*	For plan years beginning after December 31, 2023
Catch-up contributions subject to Roth *(required provision)*	For plan years beginning after December 31, 2025
Automatic enrollment *(required provision)*	Plan years beginning after December 31, 2024
Expedite long-term, part-time workers eligibility *(required provision)*	Plan years beginning after December 31, 2024
Increase in catch-up limits for ages 60-63 *(required provision)*	Tax years after 2024
Saver's Match *(required provision)*	Plan years beginning after December 31, 2026

The SECURE 2.0 Act covers a wide variety of retirement topics but the overall goal of the Act is to help make retirement saving easier and more accessible to Americans. While the SECURE 2.0 Act targets small businesses and encourages them to offer retirement plans by making them more cost effective, the Act will have sweeping effects on employers, employees and the retirement industry as a whole. This is an opportune time for business owners and individuals alike to review their retirement plan options and ensure they are offering and utilizing the benefits that are now available.

Let's Talk.

For more information on The SECURE 2.0 Act of 2022 and how it can benefit your business, please contact an ADP Licensed Retirement Services District Manager or visit adp.com/401k.

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