SECURE 2.0
SECURE ACT PROVISIONS EFFECTIVE IN 2024

Improved Coverage for Long-Term Part-Time Employees

Applies to 401(k) and 403(b) Plans

Beginning in 2024, the SECURE Act requires that long-term, part-time (LTPT) employees must be permitted to make elective deferrals after completing three consecutive 12-month periods with at least 500 hours of service. SECURE 2.0 amended the requirement to only two consecutive periods beginning in 2025.

- This rule only applies if the employee is at least 21 years of age at the end of the consecutive 12-month periods.
- LTPT employees must enter the plan on the earlier of the first day of the first plan year after having met the requirements, or 6 months after having met the requirements.
- Plans may allow auto-enrollment for LTPT employees.
- Pre-2021 service is disregarded for eligibility and vesting purposes.
- Does not apply to non-resident aliens or union employees.
- Employees who become eligible for the elective deferral portion of the plan solely under the new rule may still be excluded from receiving employer matching contributions, nonelective contributions, safe harbor contributions, and top-heavy minimum contributions.
    - If any LTPT employee receives employer contributions subject to vesting, they will be credited with a year of service if they have worked at least 500 hours during the vesting computation period.
- Beginning January 1, 2024, employees will be allowed to defer into the plan if they have worked at least 500 hours each computation period for *three* consecutive computation periods.
- Beginning January 1, 2025, employees will be allowed to defer into the plan if they have worked at least 500 hours each computation period for *two* consecutive computation periods.
- The LTPT employee rules will apply to 403(b) Plans for plan years beginning after December 31, 2024.
- Employees who subsequently earn 1,000 hours of service are no longer considered LTPT employees as of the first plan year beginning after the year in which they earn 1,000 hours.
    - LTPT employees who move to full-time status will continue to have vesting years determined under the 500 hours standard. ******Please note that further federal guidance is needed regarding this provision.*

Force-Out Limit Increased

Applies to 401(k) and 403(b) Plans

- Increases the maximum small balance cash-out limit from $5,000 to $7,000.
- The plan sponsor can elect a lower limit.

Required Roth Treatment for Catch-up Contributions

Applies to 401(k), 403(b) and governmental 457(b) Plans

- Catch-up contributions must be funded as Roth for participants whose FICA wages exceed $145,000 (indexed) in the prior year, even if regular contributions are pretax.

Emergency Withdrawals for Certain Expenses

Applies to 401(k), 403(b) and governmental 457(b) Plans

- Plan sponsors have the option to allow participants to request withdrawals for unforeseeable or immediate financial needs relating to personal or family emergency expenses.
- Only one distribution is permitted per year of up to $1,000 and a taxpayer has the option to repay the distribution within 3 years.
- No further emergency distributions are permissible during the 3-year repayment period unless repayment occurs.

- Distributions are not subject to the 10% penalty for early withdrawals.
- Plan sponsors may rely on participants' self-certification of the need/emergency.

Emergency Roth Savings Accounts

Applies to 401(k), 403(b) and governmental 457(b) Plans

- Plan sponsors have the option to add an emergency savings account to their plan to provide non-highly compensated employees easy access to emergency funds.
- Non-highly compensated employees can contribute to an emergency savings account on a Roth basis.
  - Automatic enrollment of up to 3% of compensation can be established.
- Roth contributions are match eligible.
- Total net contributions are limited to $2,500 per plan year. Plan sponsors can set a lower limit.
- Employees are allowed to withdraw up to the full account balance at least once per calendar month.
- Withdrawals may be repaid to the plan within a 3 year period.
- Non-highly compensated employees who become highly compensated employees can maintain the account but not make additional contributions.

Qualified Student Loan Payments are Treated as Deferrals for Employer Matching

Applies to 401(k), 403(b) and governmental 457(b) Plans

- A qualified student loan payment is broadly defined as any indebtedness incurred by the employee solely to pay qualified higher education expenses of the employee.
- Eligibility is limited to employees who are eligible to receive match for elective deferrals.
- Cannot exceed 402(g) limit minus elective deferrals.
- Employee must annually certify payments made on loan.
  - Employer may rely on employee's self-certification.
- The plan's current rate of match and vesting schedules must apply.
- Separate ADP test for those that received matching contributions on student loan payments.
- Plan can treat student loan payments as a deferral or after-tax contribution for purposes of Safe Harbor, QACA, or Starter 401(k) rules.

Domestic Abuse Distribution

Applies to 401(k), 403(b) and 457(b) Plans

- Plan sponsors have the option to allow certain penalty-free early withdrawals in the case of domestic abuse.
  - The amount of the withdrawal cannot exceed the lesser of $10,000 (indexed) or 50% of the vested balance.
  - Withdrawal is not subject to the 10% tax on early distributions.
- Withdrawals may be repaid to the plan over three years and any income taxes on money repaid will be refunded.
- Participants can self-certify that they experienced physical, psychological, sexual, emotional, or economic abuse from a spouse or domestic partner within a one-year period immediately preceding the withdrawal request.
  - Includes efforts to humiliate, control, isolate or intimidate victim or to undermine victim's ability to reason independently.
  - Includes abuse of victim's child or another family member living in household.

Hardship Withdrawal Rules for 403(b) Plans

Applies to 403(b) Plans

- Plan sponsors have the option to permit hardship distributions from QNECs, QMACs, and earnings on any salary reduction contributions, QNECs and QMACs.
- Removes requirements to take any available plan loans.