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SECURE 2.0: Five Key Provisions for 2024

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Happy National 401(k) Day!

It's been about nine months since Congress passed a handful of laws, collectively referred to as SECURE 2.0. SECURE 2.0 contained over 90 provisions (some mandatory, others optional) that have, or will impact retirement plans in a phased manner. Implementing certain provisions has been challenging for service providers as guidance has been requested, but not yet provided. As 2023 winds to an end, we look ahead to the status of five provisions in effect for 2024.

1. Roth Catch-Up Contribution

Mandatory Provision - *Effective for taxable years beginning after 12/31/2023*

Provision Summary: Participants taking advantage of catch-up contributions and whose wages exceeded $145,000 in the prior calendar year must make those catch-up contributions on a Roth (after-tax) basis.

Update: This mandatory provision has given recordkeepers and payroll providers the most trouble as they race to upgrade or create new systems with the ability to administer this requirement. The IRS announced on August 25 some welcome relief as they extended the administrative transition period until 2026.[1] The extension will give recordkeepers, payroll providers and sponsors additional time to create and test systems necessary to accommodate this provision.

Additionally, the IRS corrected an oversight in the original release of SECURE 2.0 which inadvertently prohibited anyone over the age of 50 from making catch-up contributions in 2024. The corrected language allows for the continuation of the original provision, which had been set to expire. The key takeaway is that catch-up contributions will continue to be administered as they have been in the past through the end of 2025.[2]

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[1] https://www.irs.gov/newsroom/irs-announces-administrative-transition-period-for-new-roth-catch-up-requirement-catch-up-contributions-still-permitted-after-2023

[2] https://www.irs.gov/newsroom/irs-announces-administrative-transition-period-for-new-roth-catch-up-requirement-catch-up-contributions-still-permitted-after-2023, August 25, 2023.

2. Required Minimum Distributions (RMDs)

Mandatory Provision - *Effective after 12/31/2023*

Provision Summary: The RMD beginning age will expand further to age 73 starting in 2023 and to age 75 starting in 2033.

Update: RMDs are returning to new participants in 2024. Participants turning age 73 in 2024 will be required to take their first distribution.[3] Recall, anyone already in RMD payment status from previous rules prior to the passing of SECURE 2.0 (age 70.5 or 72) would have still been required to take distributions in 2023. Beginning in January, sponsors should work with their recordkeepers to ensure participants turning 73 in 2024 are being notified.

Additionally, the penalty for missing an RMD has also been reduced. Prior to SECURE 2.0 the penalty for missing the RMD was 50% of the RMD (plus applicable income tax). This penalty has been reduced to 25% of the missed RMD (plus applicable income tax). The penalty can be reduced to 10% of the RMD amount if the distribution is taken in full by the end of the second year following the year it was due.[1]

3. Student Loan Matching Contributions

Optional Provision - *Effective for plan years beginning after 12/31/2023*

Provision Summary: Plan Sponsors of qualified retirement plans may provide matching contributions on qualified student loan payments. The student loan match must be subject to the same vesting schedule as the regular match.

Update: This optional provision has garnered a lot of attention even before the passing of SECURE 2.0. Student loan debt continues to burden many Americans and sponsors will now have another tool to help address this issue for their employees.

Given the breadth of SECURE 2.0 and the required upgrading and reprogramming of systems, many recordkeepers and payroll providers are focusing on complying with the mandatory provisions first, before setting systems up for optional provisions. Sponsors interested in this feature should inquire with their service providers on their current capabilities and timeline to confirm when this feature may be available for implementation.

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[1] https://www.irs.gov/newsroom/irs-announces-administrative-transition-period-for-new-roth-catch-up-requirement-catch-up-contributions-still-permitted-after-2023, August 25, 2023.
[3] https://www.irs.gov/retirement-plans/retirement-plan-and-ira-required-minimum-distributions-faqs, March 14, 2023.

4. Rothification of Employer Matching

Optional Provision - *Effective after 12/31/2023*

Provision Summary: Allows plans to offer participants the ability to take some or all of matching and/or nonelective employer contributions as Roth contributions, the employer Roth contribution would be includable in employee income; such contributions must be fully vested at the time they are made.

Update: This provision was technically available to Plan Sponsors in 2023. However, much like other optional provisions discussed, recordkeeping and payroll systems require updating before this feature can go live. Sponsors interested in this feature should inquire with their service providers about their current capabilities and timeline as to when this feature may be available for implementation.

5. Collective Investment Trusts ("CITs") in 403(b) Plans

Optional Provision - *Status Unknown*

Provision Summary: SECURE 2.0 was anticipated to eliminate the barrier preventing 403(b) plans from investing in CITs. While SECURE 2.0 certainly laid the groundwork for the inclusion of CITs in 403(b) plans, modifications to applicable securities laws were necessary before this could happen.

Update: May 2, 2023, the House of Representatives introduced a bipartisan bill, *The Retirement Fairness for Charities and Educational Institutions Act of 2023 (H.R. 3063),* aimed at fixing the securities laws that have prevented the use of CITs in 403(b) plans.[4] At present this bill is stalled in committee without a firm timeline. Given the bipartisan support, we remain cautiously optimistic the bill will pass at some point in the future.

The retirement industry is still digesting all the provisions and impacts of SECURE 2.0 with more phasing in over the coming years. If you have questions on any of the above-mentioned provisions and the implications to your plan, please reach out to me or any of the associates at Fiducient Advisors. Fiducient Advisors continues to monitor the rollout of SECURE 2.0 and will provide timely updates.

Please reach out to any of the professionals at Fiducient Advisors for questions or additional information. Please click here to listen to a webcast on SECURE 2.0.

[4] https://www.congress.gov/bill/118th-congress/house-bill/3063/text

About the Author

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Brian services institutional clients by providing advice and guidance on the manager search process, fund selection for portfolios and overall investment management. Brian is a member of the firm's Defined Contribution Business Council and co-chair of the Recordkeeper Oversight Committee. Brian joined the firm in 2007 as a Performance Analyst and held many positions within Fiducient Advisors on his path to Senior Consultant.

Previously, he was a Client Service Specialist for Chase Investment Services and Scudder Investments. He graduated with a BA from the University of Northern Iowa. Brian is actively involved in The Greater Chicago Food Depository and enjoys biking, golf and traveling.