SECURE 2.0: Frequently asked questions

GENERAL

How is SECURE 2.0 going to affect my plan?

- This act includes changes focused on expanding coverage, increasing employee savings, and allowing additional options for participants to access their savings. Some provisions went into effect in 2022, while others will continue to go into effect through 2033. Some of the changes are voluntary, others are mandatory. In many cases, further guidance from the IRS and U.S. Department of Labor (DOL) is required to fully understand and implement many of SECURE 2.0's provisions. You should contact your Client Services Manager with any questions.

Will there be a cost to make the plan changes?

- Sentry doesn't charge for amendments. However, many of the provisions may increase your plan's administrative costs in a way that isn't clear at this point in time. Additionally, fees may be accessed by your payroll provider or other service providers.

As a plan sponsor and participant, how are we made aware of requirements?

- Sentry provides ongoing support, including participant enrollment materials, email communications, notice preparation, and employee education. We'll notify you as additional guidance from the IRS and DOL on SECURE 2.0 becomes available.

What will happen if my plan isn't compliant?

- There are mandatory provisions in the SECURE acts that all plans must follow. If your plan is non-compliant with these provisions, it could result in an operational failure that may need to be corrected to avoid possible disqualification. However, in many cases, the impact of noncompliance won't be known until the IRS issues additional guidance.

Can my business receive the new tax credits?

- With SECURE and SECURE 2.0, tax credits are available for some small employer plans. Consult your tax advisor to determine if you're eligible for these credits.

Do I have to offer auto enrollment in my plan?

- Starting in 2025, employers with new 401(k) plans starting on or after December 29, 2022, must automatically enroll employees when they become eligible under the plan guidelines. They must be enrolled with an initial contribution of 3%–10%, increasing the rate by 1% per year to at least 10%, not to exceed 15%.

Do profit-sharing plans need to take any action?

- There are provisions in the SECURE acts that impact non-401(k) plans. Though changes to long-term, part-time employees and Roth catch-up contributions won't apply, there are mandatory cash-out and Required Minimum Distribution changes.

CATCH-UP CONTRIBUTIONS

When will we know if our participants must contribute catch-up contributions on a Roth basis?

- Starting in January 2026, SECURE 2.0 states that employees who earned more than $145,000 (wage amount subject to change each year) in FICA wages from you in the prior calendar year can only make catch-up contributions on a Roth basis. Catch-up eligible employees who earned $145,000 or less in the prior year can continue to make catch-up contributions on a pretax or Roth basis.

Note: Originally effective in January 2024, IRS Notice 2023-62 delays the implementation of this rule until January 2026. The two-year administrative transition period will allow the time necessary for plan sponsors and their payroll vendor to prepare for this provision.

ROTH

Does my plan have to offer a Roth option?

- Generally, offering a Roth option to your participants is optional. However, if your plan offers a catch-up provision—which allows participants 50 years and older to contribute additional money to the plan—the Roth component is required beginning in 2026.

Do I have to offer a Roth match?

- Starting in 2023, plan sponsors can offer participants the option to have their employer make matching contributions on an after-tax basis to their plan's Roth account, but they aren't required to do so. Roth matches will be treated as taxable income for participants. Currently, Sentry doesn't offer this option.

LONG-TERM, PART-TIME EMPLOYEES

Who is considered a long-term, part-time (LTPT) employee?

- The original SECURE Act (passed in 2019) requires that you must allow LTPT to make 401(k) contributions under your plan. The act defines a LTPT employee as someone who worked 500 hours or more in each of the three consecutive 12-month periods prior to 2024 and meets the plan age requirement. SECURE 2.0 Act redefined LTPT to an employee who worked 500 hours or more in each of the two consecutive 12-month periods—effective starting in 2025.

How do LTPT employees affect my plan?

- You must allow eligible LTPT employees to make elective contributions to your plan starting in 2024. They're not required to receive employer plan contributions—match, safe harbor, or nonelective—until they satisfy all your plan's normal eligibility requirements. LTPTs won't be included in any ADP test required for your plan and won't receive extra employer contributions if your plan is found to be top-heavy.

REQUIRED MINIMUM DISTRIBUTIONS (RMDS)

How are RMDS changing?

- As of 2023, the age for required minimum distributions (RMDs) was raised to 73.
- In 2033, the age will increase again to 75.
- Starting in 2024, Roth dollars in a 401(k) plan won't be subject to RMDs.
- The penalty for failing to satisfy the yearly RMD requirement has decreased from a 50% excise tax on the amount not withdrawn to a 25% tax, or even less in some cases.

MISCELLANEOUS

Are there new penalty-free withdrawal options?
If so, when will they be available?

- Yes, there are newly created distribution options under SECURE 2.0, however, they're voluntary. Starting in 2024:
  - Emergency withdrawals of up to $1,000 annually are allowed without penalty. The participant has the option to repay this distribution within three years.
  - Victims of domestic abuse can make penalty-free withdrawals of up to $10,000—or 50% of the vested balance, if less. This option is available for up to 12 months following the incident.
- Sentry is waiting on guidance from the IRS on how to properly administer these provisions before we can determine if or when they'll be available.

Is there a change in the cash-out limits that affect my plan?

- Beginning in 2024, the cash-out limit increases from $5,000 to $7,000. We're still waiting for the IRS to issue guidance on how this impacts any balances terminated prior to 2024. But, starting with a newly terminated balance after 2023, the increased $7,000 cash-out limit applies. Some plans may have designated a lower cash-out limit, which will remain unchanged in those cases.

Are there any other changes due to the SECURE acts or other recent legislation that I should be aware of?

- The following is a brief summary of other items that may apply to your retirement plan in 2023 or 2024:

RULE/REGULATION	DESCRIPTION OF THE CHANGE	EFFECTIVE DATE
SECURE 2.0 Sec 112	**Voluntary:** IRS provides small employers with a tax credit if they allow military spouses to participate.	Taxable years beginning after December 29, 2022.
Form 5500 requirements	**Mandatory:** The method for determining a plan's participant count, which dictates whether a full Form 5500 and an independent audit are required, is changing. Instead of counting all eligible active employees plus any other participants with a balance, the new approach counts any participants with a balance. This rule isn't part of the SECURE Act or SECURE 2.0, but is a major change you should be aware of.	Plan years beginning after December 31, 2022.
SECURE 2.0 Sec 301	**Voluntary:** Allows plan fiduciaries to decide if they want to recoup overpayments that were accidentally made to participants.	Overpayments discovered on or after December 29, 2022.
SECURE 2.0 Sec 312	**Voluntary:** Allows participants to self-certify the event that could lead to a hardship withdrawal.	Plan years beginning after December 29, 2022.
SECURE 2.0 Sec 604	**Voluntary:** Allows plans to give participants the option of receiving employer match and/or nonelective contributions on a Roth basis.	Contributions made after December 29, 2022.
SECURE 2.0 Sec 320	**Voluntary:** Eliminates the requirement for employers to provide several plan notices/disclosures to unenrolled participants who have elected not to participate in the plan. Sponsors can now send an annual notice of eligibility during the enrollment period in addition to the notice given when they were hired.	Plan years beginning after December 31, 2022.
SECURE 2.0 Sec 110	**Voluntary:** Permits employers to make matching contributions based on the amount of qualified student loan payments made by those employees.	Plan years beginning after December 31, 2023.
SECURE 2.0 Sec 127	**Voluntary:** This option allows non-highly compensated employees to establish emergency savings accounts within the plan.	Plan years beginning after December 31, 2023.
SECURE 2.0 Sec 325	**Mandatory:** Eliminates using Roth accounts in the calculation of pre-death RMDs.	Taxable years beginning after December 31, 2023.

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