Boyer & Ritter LLC

Secure Act & Secure Act 2.0

Clarifications and Additions

Presented by Boyer & Ritter's Employee Benefit Plan Group

DURING THE PROGRAM

- All attendees' lines are muted
- Question board is available and monitored. Look for the Q&A icon on the webcast toolbar. The chat feature has been disabled.
- Slides and a recording of the webinar will be available.
- At the end of the webinar there will be a Q&A period. Any questions not answered will be accumulated and provided along with a copy of the slides.

Boyer & Ritter LLC

Earning CPE/SHRM Credits

- 4 polling questions per hour (any answer counts)
- You must respond to 75% of the polling questions to receive credit
- **If you want to receive credit, email mhall@cpabr.com and specify if you should receive CPE or SHRM credit (external participants only)**
- Certificates will be emailed to you

Your Presenters

Presented by Boyer & Ritter’s Employee Benefit Plan Group

Boyer & Ritter LLC

PROGRAM AGENDA

Updates to the Required Minimum Distribution Rules

Surviving Spouse Distributions and RMD and Other Penalty Reduction Rules

Student Loan Match Guidance

SECURE ACT & SECURE ACT 2.0

REQUIRED MINIMUM DISTRIBUTION RULES

Presented by: Kim Williams, Principal

Speaker Introduction

Kim Williams, CPA

- Principal with Boyer & Ritter
- Chair of the Employee Benefit Plan Services Group
- Over 25 Years Experience
- Audit, tax and consulting related to 401(k) Plans, Pension Plans, ESOP, & Health and Welfare Plans and 403 (b) Plans

Agenda

- What is a required minimum distribution (RMD) and the History behind the RMD

- Revisions under the final regulations and proposed regulations released in July 2024:
  - Changes to the required beginning date (RBD) to take an RMD
  - Impact of a Roth account on an RMD
  - 10-year rule

Boyer & Ritter LLC

What is an RMD?

A required minimum distribution (RMD) is the amount of money that must be withdrawn annually from certain employer sponsored retirement plans. This allows the federal government to collect tax from amounts held in tax deferred retirements plan accounts. RMD's are required to be taken by April 1 after you reach the required beginning date (RBD).

What is an RMD? (continued)

- These rules define the slowest and latest a plan can distribute a participant’s account
- By the participant’s RBD, the plan must either distribute 100% of the participants vested account or begin distributing the participants account under the IRS tables
- The RMD is determined by dividing the retirement account’s prior year-end fair market value by a life expectancy factor published by the IRS

What is an RMD? (continued)

Example RMD calculation

Facts: Sam is 76 and has $300,000 in his 401k plan account as of December 31, 2022. Assume the table factor is 22.

Sam's 2023 RMD would be $13,363.36

What is an RMD? (continued)

- RMD rules apply to employer sponsored retirement plans including:
  - Profit sharing plans
  - 401 (k) plans
  - 403(B) plans
  - 457(b) plans
  - IRA's and IRA based plans

History of RMD’s

In 2002, the Treasury Department issued detailed RMD regulations. Those regulations have been in place until the Secure Act and Secure Act 2.0.

- Secure Act provided for two significant RMD regulation revisions
    - Delayed the requirement to take an RMD from 70.5 to 72
    - Added a 10-year cutoff to most RMD’s after the death of the account holder

History of RMD’s (Continued)

- Secure Act 2.0 added additional changes to RMD regulations
  - Delays the requirement to take an RMD to 73 or 75 based on date of birth
  - Roth plan accounts are no longer subject to RMD’s while a participant is alive
  - Provides an election for the spouse to use the Uniform Life-Time Table
  - Reduction in the penalty for failure to distribute an RMD

Secure Act & Secure Act 2.0 – RMD Regulations (continued)

Effective date of implementation was delayed until January 1, 2025.

Plan amendments are not required for most plans until December 31, 2026

History of RMD's (Continued)

For years before 2025, follow 2002 regulations but apply a reasonable good faith interpretation of the provisions of the Secure Act and Secure Act 2.0

Polling Question #1

What was the original RMD age from the 2002 regulations?

A. 74
B. 72
C. 70.5

Secure Act & Secure Act 2.0 – RMD Regulations

On July 18, 2024, the Treasury Department and Internal Revenue Service (IRS) released final and new proposed regulations related to Required Minimum Distributions under the Secure Act (Setting Every Community up for Retirement) and the Secure Act 2.0.

Secure Act & Secure Act 2.0 – RMD Regulations (continued)

The final regulations focus on the Secure Act changes and certain Secure Act 2.0 changes

The proposed regulations provide additional guidance on provisions in Secure Act 2.0 providing for a notice and comment period.

Changes to the RBD to take an RMD

The following table illustrates changes to the RBD from the initial regulations through SECURE Act 2.0:

Date of Birth	RBD Age
Before 7/1/1949	70.5
7/1/1949 to 12/31/1950	72
1/1/1951 to 12/31/1959	73
After 12/31/1959	75

Other RBD Rules

- The RBD for a more than 5% owner in the year you reach the date can not be delayed until retirement as it can for less than 5% owners and employees.
- If multiple employers sponsor a plan and a participant is more than a 5% owner in any of the employers, the rules above apply as well.
- Plan can elect to use a uniform RBD

Roth Account

A Roth contribution is an after-tax contribution into a retirement account which allows earnings to grow tax free.

Impact to your Roth account

The following changes apply to Roth accounts under the Secure Act 2.0:

- You no longer have to take an RMD from a designated Roth account while the participant is alive including:
  - Roth deferrals,
  - Roth rollovers and conversions
  - Roth employer contributions

Impact to your Roth account (Continued)

- The account balance for computing the required beginning date to receive an RMD does not include a designated Roth account balance
- These rules begin in the 2024 distribution year and only apply to the years a participant is alive including the year of a participant’s death.

Impact to your Roth account (Continued)

- If a participants entire account is a Roth account, RMD is zero
- Proposed regulations state that while a participant is alive, distributions from a designated Roth account do not satisfy RMDs so
  - They can be eligible for rollover distributions and
  - An RMD must be taken from a non-Roth account if you have one.

Polling Question #2

If you were born on January 1, 1962, at what age would you need to take your first RMD?

A. 77
B. 75
C. 71

The 10-Year Rule
10-Year Cutoff

This rule applies to Defined Contribution plans when a participant dies on or after their required beginning date to receive minimum distributions and accelerates distributions from those accounts

The 10-Year Rule and 10-Year cutoff

Under the new rules, for post-death payments, defined contribution plans can no longer "stretch" payments for the lifetime of the beneficiary and must pay it out within 10 years with certain exceptions. The rule applies differently to different types of beneficiaries.

The 10-Year Rule and 10-Year cutoff (Continued)

Three categories of beneficiaries are eligible for distribution upon the death of a participant

- Eligible designated beneficiary (EDB) (must be an individual)
- Other/Non designated beneficiary (ODB)
- Other recipients (estate, trust, charitable organizations)

Boyer & Ritter LLC

Post – Death Distributions
(after Secure Act and Secure Act 2.0)

	Recipient	Participant died before RBD		Participant died on or after RBD
		Default rules	*Elections*	
Death after SECURE	Spouse	Life expectancy with ULT	Wait until participant would have reached RMD age use 10 Year Rule	Life expectancy, can elect to use ULT
	EDB	Life Expectancy	10 Year Rule	Life Expectancy
	ODB	10 Year Rule		Life Expectancy, Cut off at 10 Years
	Non-Designated Beneficiaries	5 Year Rule		Life Expectancy

The 10-Year Rule and 10-Year cutoff (Continued)

Who are included as Eligible Designated Beneficiaries?

- Spouse
- A child who is under 21
- A beneficiary that is disabled or chronically ill
- A beneficiary that is not more than 10 years younger than the participant

EDB Clarifications

Minor Child: Clarifies that a minor child must continue taking annual payments from age 21-31. A minor child also includes a stepchild, adopted child, and an eligible foster child.

- If there are multiple minor children, a full distribution is not required until 10 years after the youngest of the participant's children attains age 21 (Child must be an EDB)
- Or, if earlier, 10 years after the death of the last minor child

EDB Clarifications (continued)

Disability and chronic illness: Clarifies the documentation requirements related to disability and chronic illness as follows:

- Includes an SSA letter for the disability as a safe harbor
- Bars self-certification as the only support for the disability or chronic illness.
- Documentation is due on October 31 of the year following the year of the participant's death.
- Transition rules related to a participants' death in 2020-2024 require documentation by 10/31/2025

Other Recipients - Clarifications

Trust Beneficiary: Generally retains the existing trust rules

- Secure 2.0 allows certain charities to be beneficiaries in a trust
- Plan administrator may choose which of two methods of documentation are accepted
- No trust documentation is required for an IRA custodian

EDB Clarifications (continued)

Older Beneficiary: eliminates the rule requiring a full distribution when the beneficiary's life expectancy is less than or equal to 1.

Allows older beneficiaries to take over the younger participant's remaining life expectancy increasing the distribution period

The 10-Year Rule and 10-Year cutoff

RMD payment timing for EDB's

- The beneficiary can elect to receive payments
  - Beginning in the year after the participant's death over the beneficiary's lifetime or
  - The entire amount by the end of the calendar year including the 10Th anniversary of the participant's death.

The 10-Year Rule and 10-Year cutoff (Continued)

RMD payment timing for ODB's

- The beneficiary must receive the entire amount by the end of the calendar year including the 10th anniversary of the participant's death.

RMD rules – Summary of Clarifications

Final RMD payment: Additional relief was provided to beneficiaries to take the participant's final RMD payment, including allowing the payment to be made to any beneficiary and allowing an automatic waiver if the final RMD for the participant is paid to any beneficiary by the later of:

- The tax filing deadline of the beneficiary (including extensions) or
- The end of the calendar year following the year of the participant's death

Boyer & Ritter LLC

Plan administrators should be in communication with plan providers to ensure all requirements of the Secure Act and Secure Act 2.0 are in place for the January 1, 2025 implementation date.

SECURE Act 2.0

Surviving Spouse Distributions and RMD and Other Penalty Reduction Rules

Presented by: Emily Roman, CPA – Manager

Speaker Introduction

Emily Roman, CPA

- Manager in Boyer & Ritter's Employee Benefit Services Group
- Over 8 Years Experience
- Audits of 401(k), Pensions, & Health and Welfare Plans

Surviving Spouse

For a deceased participant with a 401(k) account, a surviving spouse can roll over the deceased participant's account to their own account OR the surviving spouse can formally elect to treat the deceased spouse's 401(k) account as their own account. This election does not require a rollover of funds. It only requires the surviving spouse to redesignate the account as his or her own account. This took effect January 1, 2024.

Surviving Spouse (Continued)

If the surviving spouse does elect to assign the account as their own, the account is now in their name as of the beginning of the year when the election is made. Note- if the deceased spouse had reached his or her RMD age and had not taken the RMD prior to their death, then that RMD must still be taken or RMD’s must continue to be taken if already started.

Surviving Spouse (Continued)

- Treat surviving spouse as the employee for purposes of calculating the RMD
  - Allows spouse to use the ULT (Uniform Lifetime Table)
  - Account Balance as of 12/31 last year divided by Life Expectancy Factor = RMD amount

Surviving Spouse (Continued)

Example:

Sam is a 75-year-old surviving spouse with an inherited 401(k) account valued at $100,000. He would be required to withdraw at least $4,065 for the year ($100,000 divided by 24.6).

Age	Life Expectancy Factor
72	27.4
73	26.5
74	25.5
75	24.6
76	23.7
77	22.9
78	22.0
79	21.1
80	20.2
81	19.4
82	18.5
83	17.7

Age	Life Expectancy Factor
84	16.8
85	16.0
86	15.2
87	14.4
88	13.7
89	12.9
90	12.2
91	11.5
92	10.8
93	10.1
94	9.5
95	8.9

Surviving Spouse (Continued)

- Spousal delay
- If spouse dies before distributions begin- spouse “steps into employee’s shoes”

Boyer & Ritter LLC

Spousal Delay

On July 18, 2024, the IRS proposed regulations, whereas a surviving spouse of a deceased participant who died before their RMD can delay RMDs until the deceased spouse would have reached RMD age, at which time the RMDs must start. When RMDs start for the surviving spouse, the surviving spouse will calculate RMDs using his or her age and the IRS' Uniform Lifetime life expectancy table. Note that the Uniform Lifetime Table has been used until now only to calculate RMDs during a participant's lifetime NOT a beneficiary.

Spousal Delay (Continued)

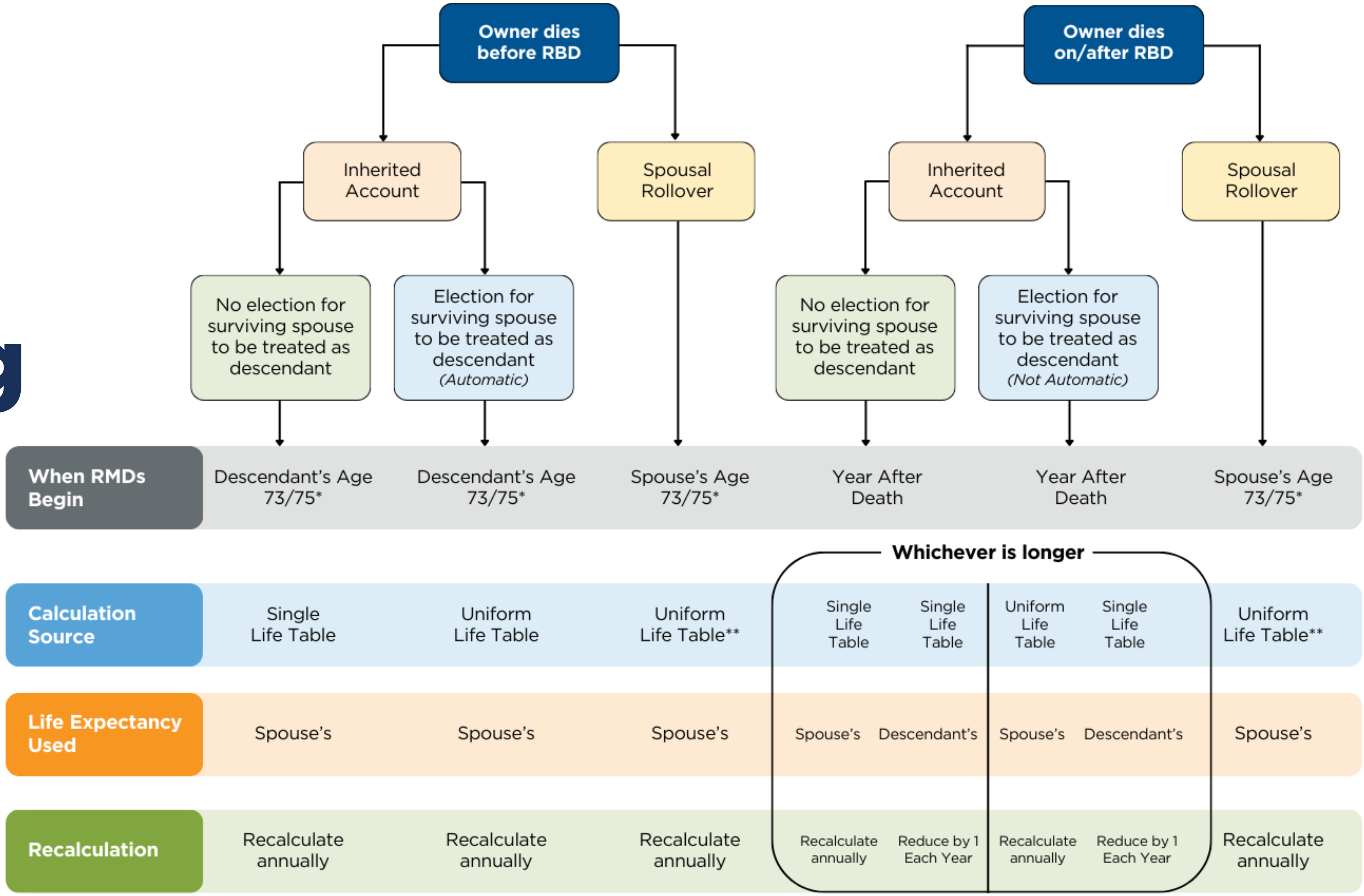
Example:

Robert died in April 2024 at age 61 (born March 24, 1963). His beneficiary is his spouse Monica, who is age 55. Monica will not have to take RMDs until Robert would have been required to start RMDs (age 75 since he was born after 1959). This will allow Monica to delay RMDs for 14 years.

Boyer & Ritter LLC

Surviving Spouse Options

Surviving Spouses' Options For Inherited Retirement Accounts



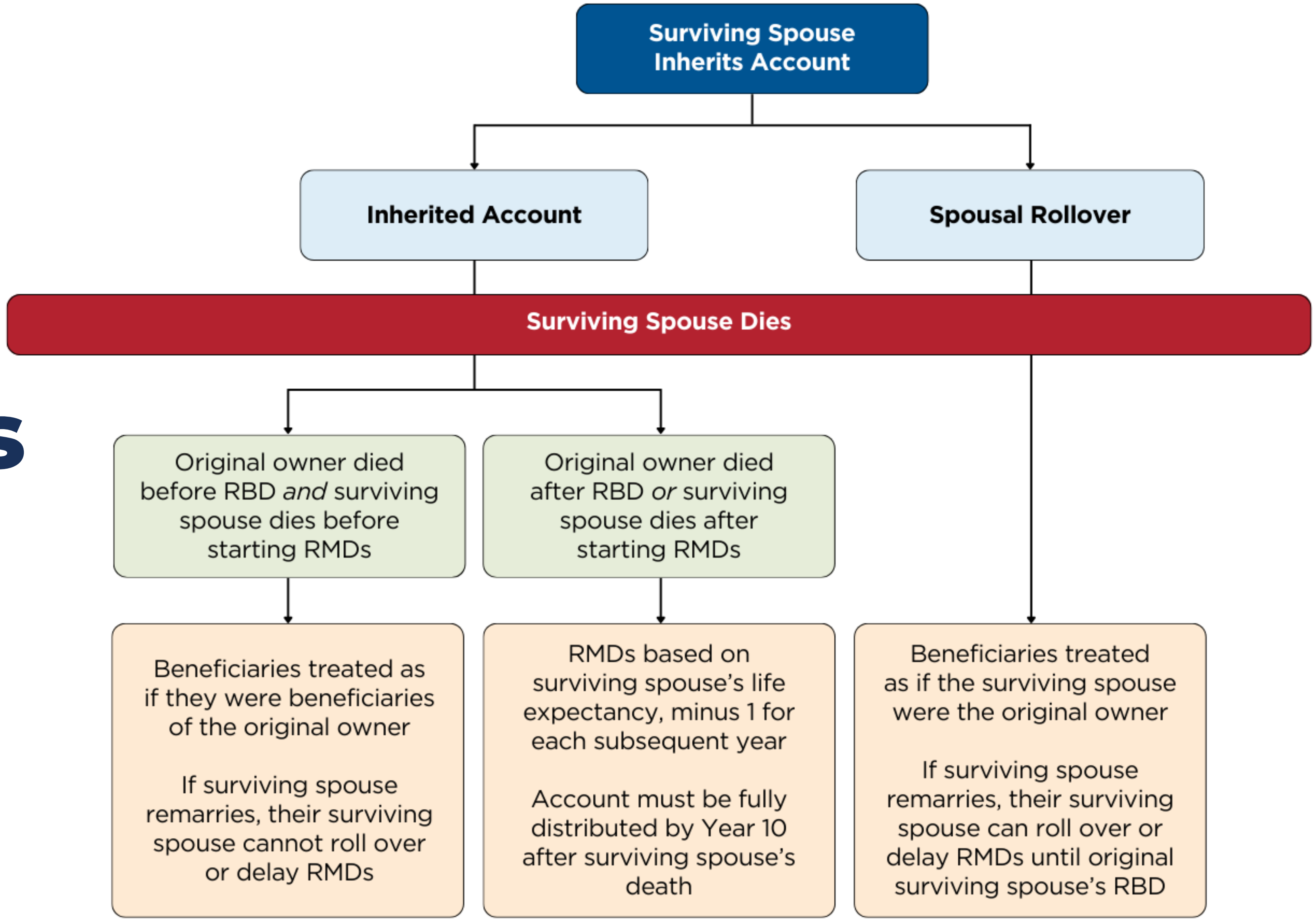
*Age 73 if born from 1951-1959, age 75 if born 1960 or later
**If the surviving spouse rolls over the account and remarries, and their new spouse is more than 10 years younger and is the account's sole beneficiary, RMDs are calculated with the Joint and Last Survivor Table rather than the Uniform Life Table

Deceased Spouse Rules

If the spouse also dies before the RMD's begin, the spouse's beneficiaries "step into the shoes" of the deceased spouse as the "eligible designated beneficiary", letting them use their own ages rather than having to take distributions based on the age of the now deceased spouse.

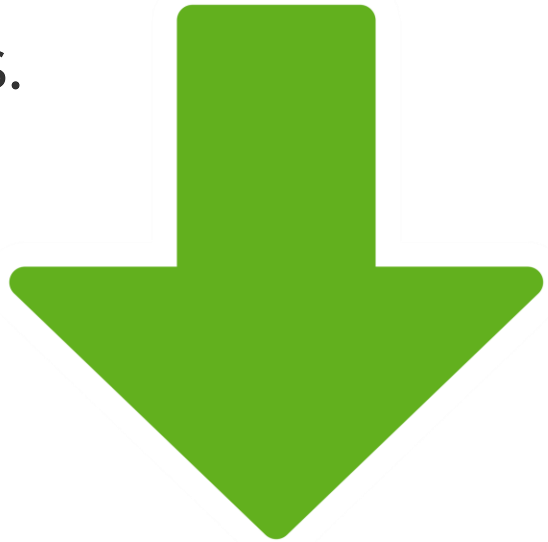
Deceased Spouse Rules (Continued)

Rules for Successor Beneficiaries of Surviving Spouses Who Inherit Retirement Accounts



RMD Penalty Reduction Rules

- Penalty excise tax for a missed RMD reduced from 50% to 25% and may be reduced to 10% if the RMD is corrected timely within two years.



Polling Question

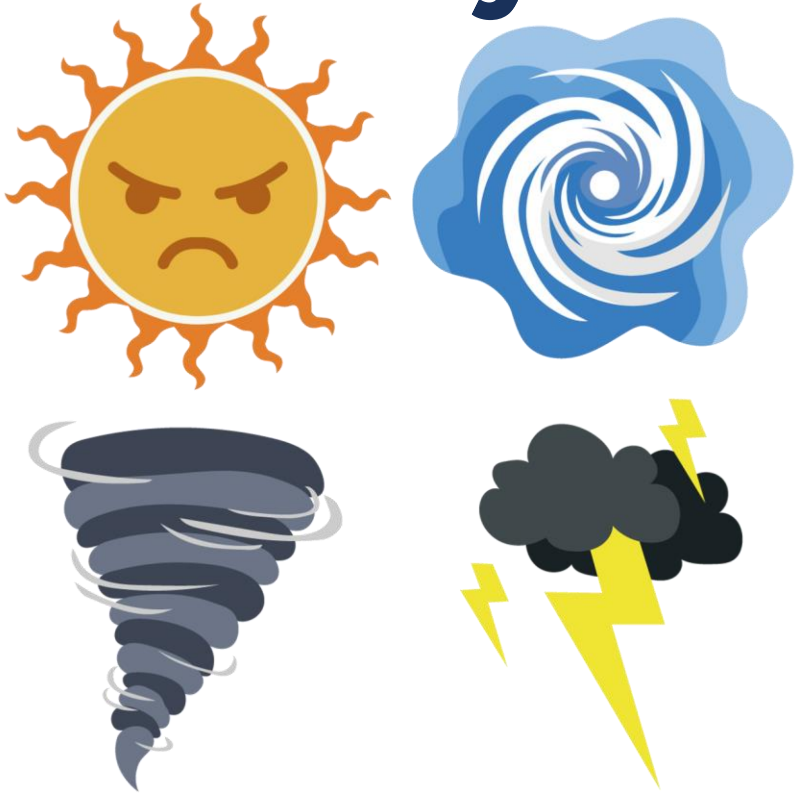
On average, how many seeds are in a standard-sized pumpkin?

A. 250
B. 500
C. 750
D. 1,000

Avoiding the 10% Withdrawal Penalty

- Background
  - Code Section 72(t) requires 10% additional tax (in addition to income tax) on a distribution from a 401k plan if taken before age 59 ½ ("early distribution") unless it falls under an exception.
  - Secure Act 2.0 added six new exceptions to avoid the 10% early withdrawal penalty.

Avoiding the 10% Penalty (Continued)



1. Disaster Relief
   - Up to $22,000 for expenses related to federally declared disaster
   - Located in disaster area
   - Three-year period where the individual can repay the distribution into the account and recover income tax paid

Avoiding the 10% Penalty (Continued)

2. Terminal Illness

- A condition that will cause death within seven year as certified by a physician
- No max limit
- Three-year period where the individual can repay the distribution into the account and recover income tax paid

Avoiding the 10% Penalty (Continued)

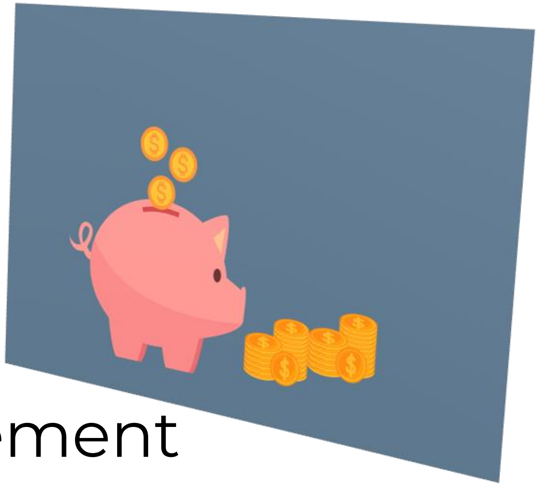
3. Emergency Expenses

- One distribution per calendar year of up to $1,000 to meet unforeseeable/immediate financial need
- “EPED” – can include medical care, accident or loss of property, immediate eviction, funeral expenses, auto repairs, etc.
- Cannot take another one for three years unless it is paid back

Avoiding the 10% Penalty (Continued)

4. Domestic Abuse
   - The lesser of $10,000 or 50% of the account value of participant.
   - "DAVD" -domestic abuse includes physical, psychological, sexual, emotional, or economic abuse.
   - Three-year period where the individual can repay the distribution into the account and recover income tax paid

Avoiding the 10% Penalty (Continued)



5. Pension Linked Emergency Savings Account
   - Designed to separate an employee's long term retirement dollars from short term emergency needs.
   - Capped at $2,500 "emergency savings account"
   - Not linked to pension plans (name is misleading)
   - Only available to employees who are eligible to participate in the plan and are NOT highly compensated

Avoiding the 10% Penalty (Continued)

6. Qualified Long Term Care Distributions
    - Limited to lesser of $2,500 annually or 10% of vested account balance
    - "Long term care premium statement" must be provided as support

Conclusion

- It’s important to remind participants that their 401(k) plan is for saving for a comfortable retirement.
- However – emergencies do happen, and the SECURE Act 2.0 is trying to assist employees as much as possible when they do.

Boyer & Ritter LLC

SECURE Act 2.0
Student Loan Match

Presented by: Dan Ryan – Manager

Speaker Introduction

Dan Ryan

- Manager in Boyer & Ritter's Employee Benefit Services Group
- 8 Years Experience
- Audits of 401(k), Pensions, ESOP, & Health and Welfare Plans

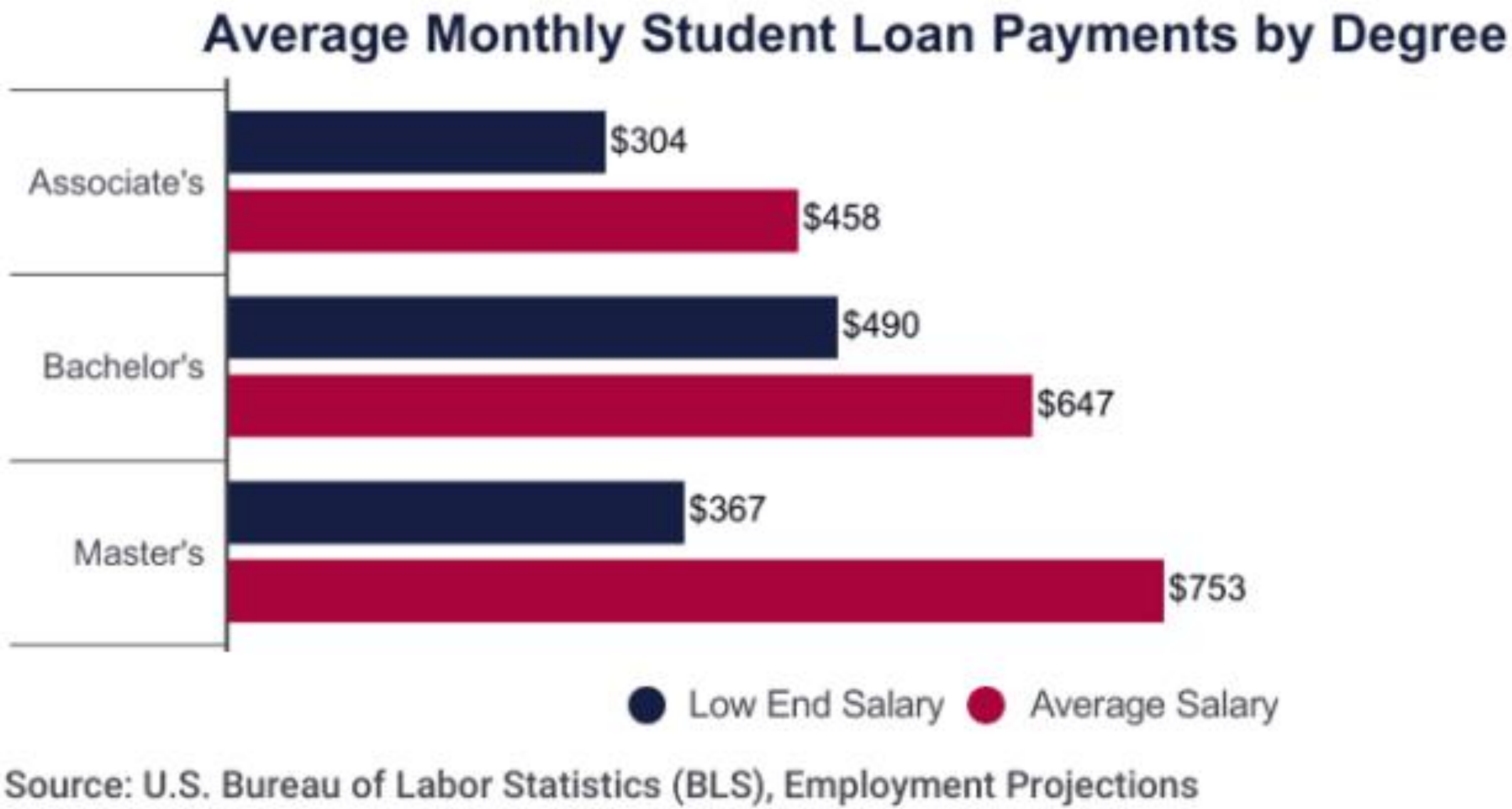
Introduction

- Under SECURE Act 2.0, employers with 401(k), 403(b), governmental 457(b), or SIMPLE IRA Plans are permitted to provide matching contributions based on employee student loan payments.

- Effective for Plan years beginning after December 31, 2023.

Main Benefit for Employers

- 55%-57% of college graduates take on student loan debt.
- The average monthly student loan payment is an estimated $500.



B&R Boyer & Ritter LLC

Basic Guidance from SECURE 2.0

Originally, SECURE 2.0 provided the following guidelines:

- Applies to loan repayments incurred on behalf of the employee for qualified higher education expenses
- Can’t exceed 402(g) limit minus any elective deferrals
- Employee must <u>annually</u> certify amount of student loan payments
- Matching must be done at the same rate, and vesting, as the normal match
- Eligibility is limited to employees who would otherwise be eligible to receive match

Polling Question

What are the names of the Boyer & Ritter Presenters?

A. Kailee, MacKenna, & Andrew
B. Cassandra, Zoe, & Chase
C. Kim, Emily, & Dan
D. Jess, Grace, & Tyler

Notice 2024-63

Effective for plan years beginning after Dec. 31 2024

- A Qualified Student Loan Payment (QSLP) is a payment made during the plan year by an employee in repayment of a Qualified Education Loan (QEL).
    - A QEL is defined as indebtedness incurred solely to pay qualified higher education expenses for:
        - Participant
        - Participant's spouse
        - Participant's dependents
    - Qualified higher education expenses only include: Tuition, Fees, Books/Supplies, Room & Board

Notice 2024-63 Annual Certification

- Employees must annually certify the payments made on the loan. The certification must include the following:
  - The amount of each loan payment
  - The date of each loan payment
  - Proof that the payments were made by the employee
  - Proof that the loan being repaid is a QEL and was used to pay for qualified higher education expenses
  - Proof that the employee is the borrower or cosigner
- Employees can “self-certify” these loan payments

Employer Match on QSLPs

- The annual matching contribution calculation on QSLPs is limited to the annual deferral limit under 402(g) ($23,000 in 2024 & $22,500 in 2023)
  - Also limited by the participant’s total compensation, if less

Employer Match Example

Example:

- Dan has compensation of $75,000
- He makes $25,000 in QSLPs during the year
- He also makes $3,000 in elective deferrals to the plan during the year
- The deferral limit under 402(g) is $23,000 for 2024
- His maximum QSLP for Match calculation purposes would be $20,000

Employer Match (Continued)

- Additionally, QSLPs:
  - Must be matched at same rate as deferral contributions
  - Cannot have different vesting schedules
  - All employees must have equal opportunity (with the only exception being Union Employees)
  - Cannot have different eligibility provisions
  - Cannot limit loans to just the participant’s education

Potential Holdups

- The notice doesn't address how a plan using a non-calendar fiscal year applies to the maximum deferral limit
- Match can't be calculated on an annual basis. Has to be calculated for each pay period.
- Could potentially be complicated to calculate. For example, if your Plan changes its matching percentage during the year.

Questions?

Boyer & Ritter LLC

Connect With Us

Kim Williams
kwilliams@cpabr.com

Connect on LinkedIn

Emily Roman
eroman@cpabr.com

Connect on LinkedIn

Dan Ryan
dryan@cpabr.com

Connect on LinkedIn