Unlocking Business Success through Enhanced Employee Benefit Plans

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BerryDunn

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Presenters

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Learning objectives

By the end of this presentation, you will have an understanding of:

- Provisions and effective dates for SECURE 2.0
- Overview of state retirement plan rules
- Individual Coverage Health Reimbursement Arrangements

Polling Question #1

Securing a Strong Retirement Act of 2022

Provision generally effective for tax years/plan years beginning on or after December 29, 2022

Securing a Strong Retirement Act of 2022

Changes to required minimum distributions (RMDs)

Old rule

Age 72

New Rule

- Age 73 in 2023
- Age 75 in 2033

Securing a Strong Retirement Act of 2022

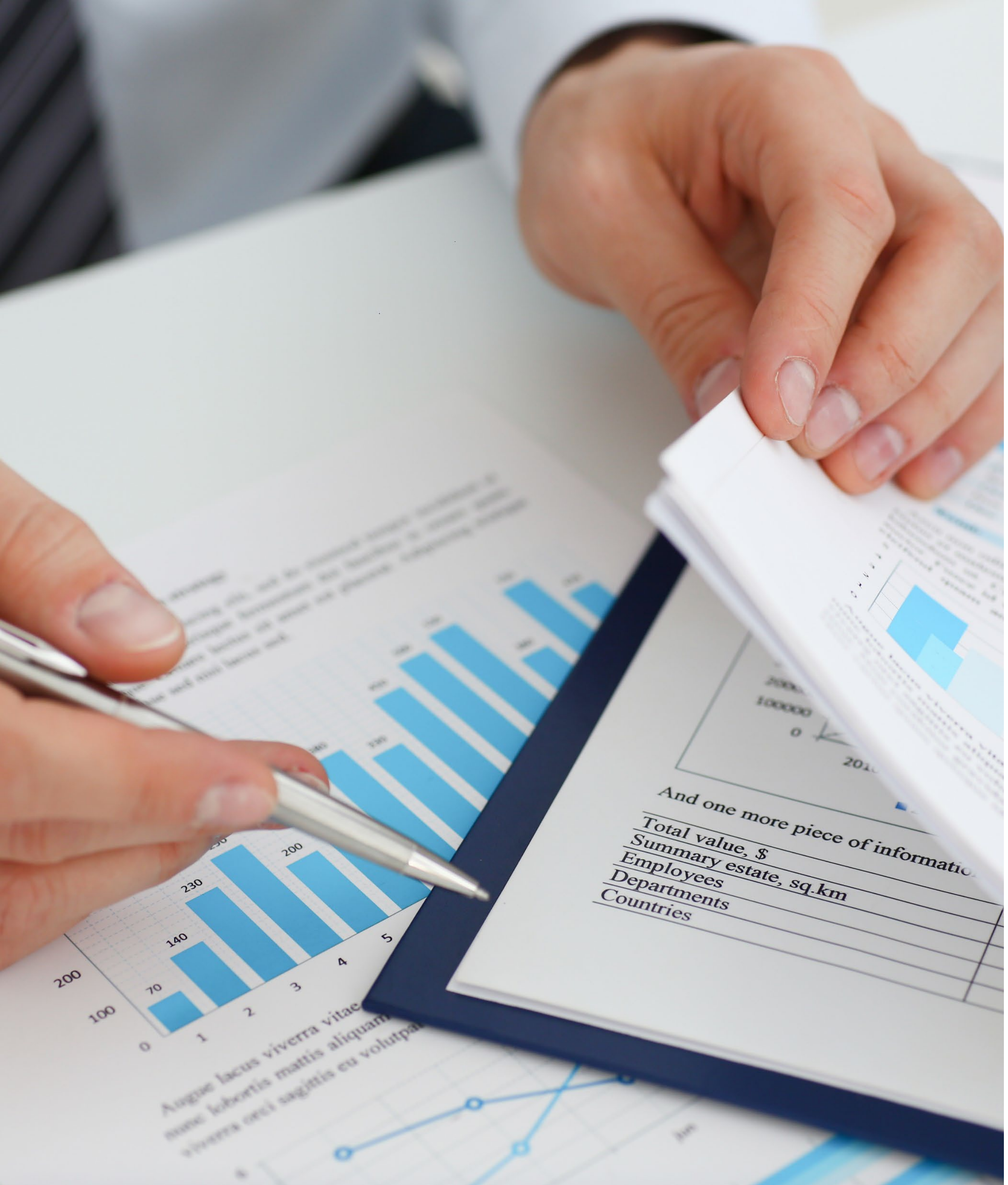
Other changes to 401(k) and 403(b) plans

Old rule

Employer contributions are pre-tax

New rule

Provide participants the option of receiving employer contributions on a Roth basis



Securing a Strong Retirement Act of 2022

Other changes to 401(k) and 403(b) plans

- Excess tax reduced to 25% for RMDs that were not timely
- Participants self-certify deemed hardship distribution conditions
- Self-certify distributions for domestic abuse
- Limits notices to employees who are eligible but do not participate

Securing a Strong Retirement Act of 2022

Other provisions effective in 2023

- Reduced disclosures to unenrolled employees
- Allows incentives for 401(k) and 403(b) elections
- Permanent relief for federal declared disasters
- 10% early withdrawal penalty waived for terminally ill
- Limited repayment period for qualified birth and adoption distributions
- Permit 403(b) investments in Collective Investment Trusts
- Permit multiple employer 403(b) plans
- Auditor’s report for “group of plans”

Securing a Strong Retirement Act of 2022

Provision generally effective for plan years beginning on or after December 31, 2023

Securing a Strong Retirement Act of 2022

Other changes to 401(k) and 403(b) plans

Current rule

Employer matching contributions apply to employee salary deferrals to plan

New rule

Student loan repayments to qualify for employer matching contributions

Securing a Strong Retirement Act of 2022

Changes to 401(k) and 403(b) plans

Current rule

Age 50 and older catch-up $7,500

DELAYED UNTIL 2026

New rule

- Contributions would be required to be made on a Roth basis
- Increases catch-up limit for those aged 62 – 64 to $10,000 (after 12/31/24)

Securing a Strong Retirement Act of 2022

Changes to cash-out limits

Current rule

Account balance less than $5,000

New rule

Account balance less than $7,000

Securing a Strong Retirement Act of 2022

Waiver of early withdrawal penalties for certain distributions

- 10% early withdrawal before age 59½ waived for the following:
  - Up to $1,000 per year for unforeseen personal or family emergency
  - Up to lesser of $10,000 or 50% of vested account balance for distributions in connection with domestic abuse
  - May repay over three years
- Additional emergency distributions are prohibited for three years unless repayment occurs

Securing a Strong Retirement Act of 2022

Starter 401(k) or 403(b) plans

1. Employee deferrals only
2. Automatic enrollment at 3% – 15% of compensation
3. Annual contribution limit is the same as for IRAs
4. Exempt from most nondiscrimination rules

Securing a Strong Retirement Act of 2022

Other provisions effective in 2024

- Eliminate RMDs for Roth 401(k) and Roth 403(b) Plans
- Surviving spouse can elect to be treated like deceased participant for RMD purposes
- Can retroactively amend plan to increase benefits
- 403(b) hardship distribution rules conform to 401(k) rules
- Establishment of Emergency Savings Accounts
  - Funded with after-tax Roth salary deferrals up to $2,500 (indexed)
  - Up to one withdrawal per month
  - Employers can automatically enroll employer at no more than 3%

Securing a Strong Retirement Act of 2022

Provision generally effective for plan years beginning on or after December 31, 2024

Securing a Strong Retirement Act of 2022

Changes to 401(k) and 403(b) plans

Current rule

Automatic enrollment is optional

New rule

- Required for new plans after 12/29/22
- Start between 3% – 10% of compensation
- Mandatory increases of 1% until reaching 10%

Securing a Strong Retirement Act of 2022 – Effective for 2025

Changes to long-term part-time employee participation

Current rule

Three years/500 hours

Proposed rule

- Two years/500 hours
- Disregards pre-2021 service for eligibility and vesting

Securing a Strong Retirement Act of 2022

Other changes to 401(k) and 403(b) plans

- Retirement Savings Lost and Found
- National online database
- Managed by the DOL

Form 5500 Participant Counts

Types of Form 5500 filers?

Small Plan

Generally, less than 100 participants as of the beginning of the plan year

Large Plan

Generally, a plan that covered 100 or more participants as of the beginning of the plan year

- Must file Schedule H
- Requires audited financial statements

Form 5500 Participant Counts

Retirement Plans: Old Rule

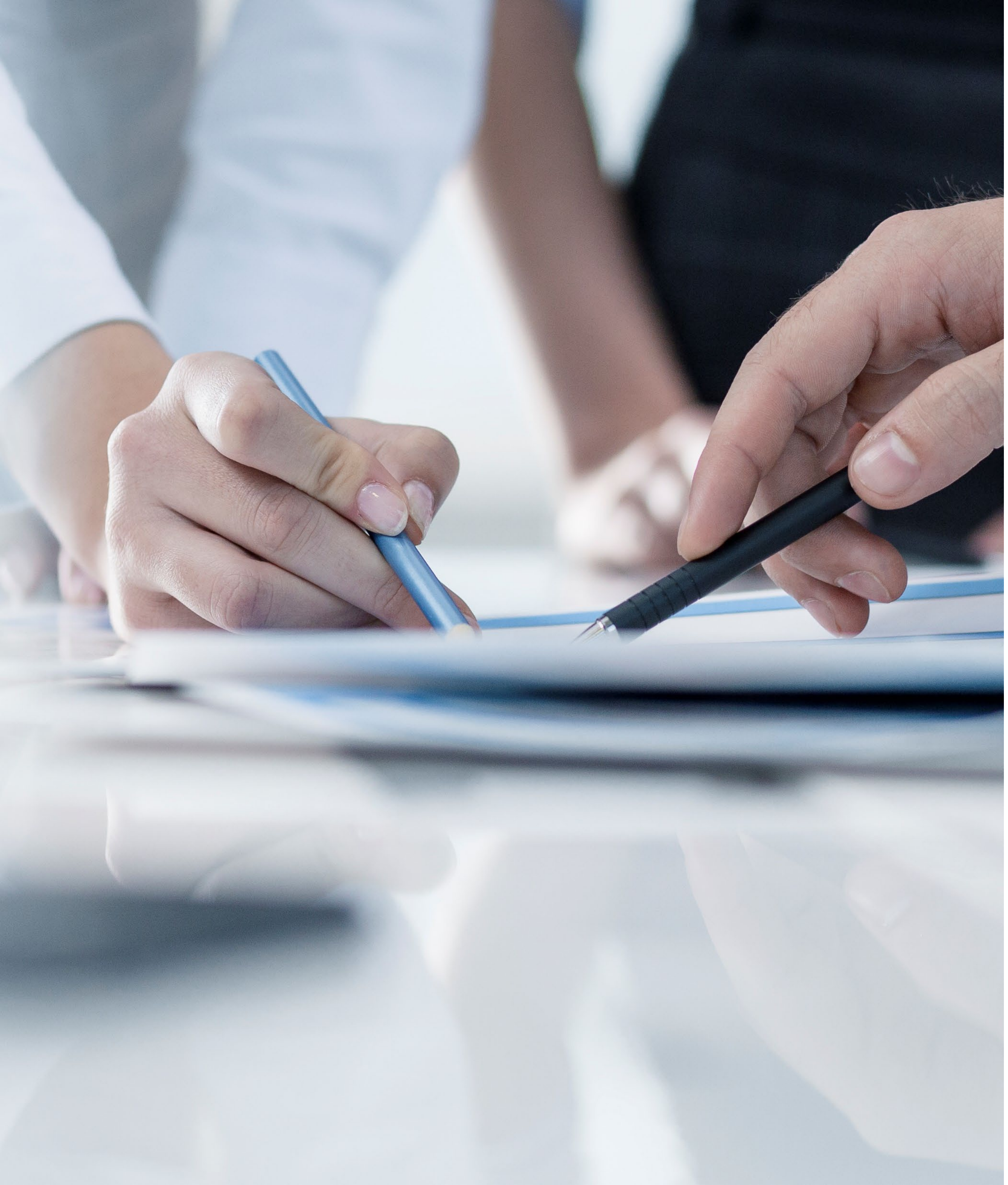
Participant is one of the following:

- Current employees <u>eligible for the plan</u>
- Former employees with account balance/benefit
- Beneficiaries of deceased employee eligible for or receiving benefits
- Do not count
  - QDRO – Alternate Payee
  - Eligible to make rollover contributions only

Retirement Plans: New Rule

Participant is one of the following:

- Current employees <u>with account balance</u>
- Former employees with an account balance/benefit
- Beneficiaries of deceased employee eligible for or receiving benefits
- Do not count
  - QDRO – Alternate Payee
  - Eligible to make rollover contributions only
- Effective date: plan years beginning on or after **January 1, 2023**



State Retirement Plan Rules

Maine's Small Business Retirement Marketplace Act

- Requires employee contributions to state-run program
  - If employer does not offer a retirement plan
- Payroll deduction to Roth IRA
- All employees aged 18 or older
- 5% automatic enrollment contribution
- Delayed effective date – January 1, 2025

State Retirement Plan Rules

Other states with retirement plan mandates

Mandatory

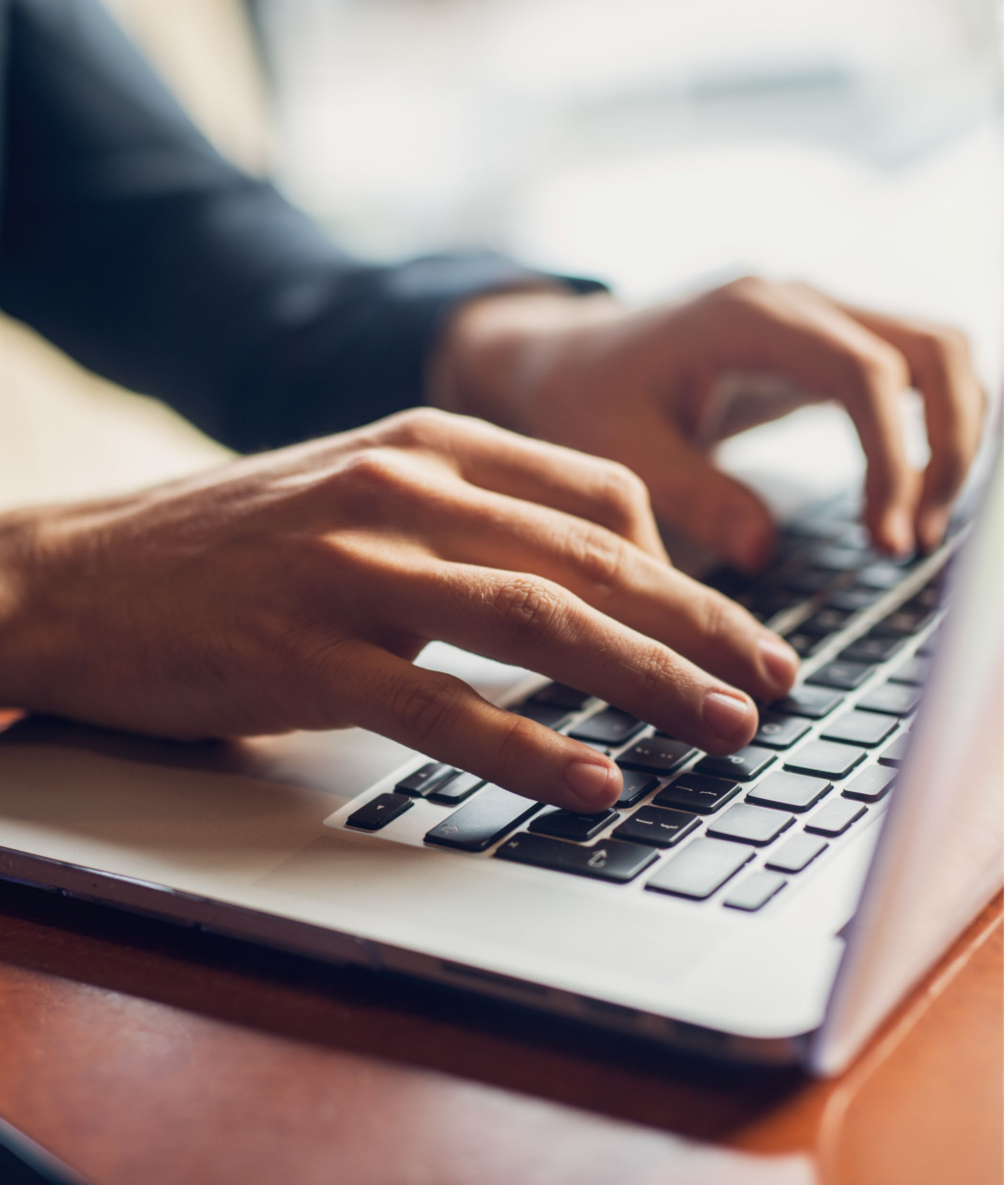
California
Connecticut
Hawaii
Maryland
New York
Virginia
Colorado
Delaware
Illinois
New Jersey
Oregon

Voluntary

Massachusetts
New Mexico
Vermont
Washington

Polling Question #2

Individual Coverage Health Reimbursement Arrangement



Health Reimbursement Arrangements (HRA)

General considerations

- Employer contributions only
- Various forms over the years
  - Cover only out-of-pocket expenses
  - Used to reduce deductible for employees
  - Reimburse individual health insurance premiums
  - Limited purpose HRA
- Affordable Care Act (ACA) changed how HRAs can be used
  - Traditional HRA must be tied to group health coverage
  - Qualified Small Employer HRA (QSEHRA)
  - Individual Coverage HRA (ICHRA)

Health Reimbursement Arrangements

QSEHRA

- Effective in 2017
- Less than 50 full-time equivalent employees
- Cannot offer group coverage
- Contributions limited to $5,850/$11,800 (2023 limit) for single/family
- All full-time employees eligible

ICHRA

- Effective January 2020
- Any size employer may offer
- Group coverage permitted. However, sample class of employees may not be offered choice of coverage
- No annual limits
- Employer can specify eligibility guidelines. Classes must meet minimum size requirements

Individual Coverage HRA (ICHRA)

More details

- Employee must purchase individual coverage through the ACA marketplace
- Employee generally will not be eligible for premium tax credits
- Employee must be given the ability to opt-out of the ICHRA
- Employee with spouse's group coverage cannot participate
- Insurance premiums and out-of-pocket medical expenses can be reimbursed (employer choice)

Individual Coverage HRA (ICHRA)

Advantages

- Truly a "defined contribution" alternative
  - Greater ability to control costs
  - Provides employees more options to purchase coverage
  - Reimbursement amount can be based on class, age, family size
- Can be offered to all employees or certain classes of employees
- Can be used to satisfy the ACA's Employer Mandate

Individual Coverage HRA (ICHRA)

Disadvantages

- May prevent an individual from contributing to a Health Savings Account (HSA)
- Individual premiums are generally more expensive than premiums under group policies

Questions?

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