First American Bank

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Potential changes in SECURE Act 2.0

During the past couple of years, there has been significant retirement plan legislation passed that was aimed at providing greater benefits, rights and features to plan participants and to provide greater incentives to save for retirement. The SECURE Act (Setting Every Community Up for Retirement Enhancement Act), which became law in 2019, brought about a lot of new features and incentives. On the heels of that, we now have Bill H.R. 2954, nicknamed SECURE Act 2.0, awaiting full congressional vote. SECURE Act 2.0 has some key provisions that, if passed, would add another round of major changes. Some of those potential changes are:

- **New Required Minimum Distribution (RMD) Age**
  The SECURE Act increased the RMD age from 70½ to 72. SECURE Act 2.0 proposes to increase the RMD age from 72 to 73 in 2022, then to age 74 in 2029, and finally to age 75 in 2032. The current 50% excise tax for any RMD failures would be reduced to 25% of the shortfall. If the error is corrected quickly, the excise tax would be reduced to 10% of the shortfall.
- **Increased Catch Up Limits**
  You may already know the maximum individual deferral limit for 2021 is

$19,500, but those over the age of 50 can make what's called a catch-up deferral of an additional $6,500. Starting in 2023, SECURE Act 2.0 proposes to increase this catch-up deferral limit to $10,000 for participants who are 62-64 years of age.

- **Roth Company Match**
  SECURE Act 2.0 will allow employers to amend their plans to allow participants to elect Roth tax treatment of all or a portion of their share of the company matching contributions. If allowed by the employer and if elected by the participant, the participant would have their portion of the company matching contribution included in their taxable income. As a result, the earnings on the amount of company match designated as Roth that are qualified distributions would not be included as taxable income upon withdrawal from the plan.
- **Student Loan Match Program**
  Student loan obligations are a significant impediment to saving for retirement. To encourage participation by employees with student loan obligations, SECURE Act 2.0 would allow employers to make matching contributions to the retirement plan, based on some degree of the student loan payment amount.
- **Mandatory Automatic Enrollment**
  SECURE Act 2.0 will require new (not existing) 401(k), 403(b) and SIMPLE plans to implement an auto enrollment feature that automatically enrolls eligible participants at 3% of compensation with an automatic increase of 1% each year capped at 10% of pay. Participants will have the ability to opt out by affirmatively electing a different deferral rate or zero deferral rate.

Modifications will probably be made to the current bill, but most of the features seem to have bipartisan support, so it is important for Plan Sponsors to know and understand what is on the horizon. Feel free to contact First

American Bank Retirement Plan Services at (847) 392-2999 with any questions or concerns you may have.

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