

Navigating SECURE 2.0: *ESSENTIAL* Changes for Advisors in 2025

Since the 2022 passing of the SECURE Act 2.0, plan advisors, administrators, and sponsors have been hard at work to ensure compliance with new legislative requirements. That will only continue this year, as three key provisions are set to take effect on January 1st. Below, we'll help simplify the key changes you can prepare for next year and highlight other opportunities you may want to discuss with plan sponsors and participants.

#1

MANDATORY AUTO-ENROLLMENT FOR NEW PLANS

What was a suggestion, is now a requirement. Beginning in 2025, new plans (defined as any 401(k) or 403(b) plan started after December 29, 2022) must auto-enroll employees at a 3% deferral rate (at least) to a 10% deferral rate (at most). This rule applies to companies that have been in business for more than 3 years and have at least 10 employees. Church and government plans are exempt. This auto-enrollment must automatically increase yearly by 1% until reaching at least 10% (but not exceeding 15%).



What Does This Mean for Plan Sponsors?

If you haven't already, you'll want to work with your plan sponsors to ensure that employees are set up to auto-enroll in the new year and that appropriate communications and notices to employees are sent. Per the guidance from the IRS, the notice to employees must contain contribution rates, opt-out instructions, and investment options (Paychex, 2024). You can find complete guidance from the IRS [here](#).

#2

LONG-TERM PART-TIME (LTPT) WORKER ELIGIBILITY PROVISION

Beginning in 2025, employees who have worked at least 500 hours for two consecutive years will be eligible to participate in workplace retirement plans (Winters and Hoss, 2024). This represents a shift as until this year, the IRS required 500 hours for three consecutive years. Also new this year is that the provision extends to 403(b) plans in addition to 401(k) plans (Vanguard, 2024).



What Does This Mean for Plan Sponsors?

Have you and your plan sponsors developed a plan for identifying LTPT-eligible employees? The guidance states that hours will be calculated from January 1, 2023. Now is a good time to ask if and how they calculate hours to make sure you don't leave out eligible employees and effectively communicate with them to give them access to the plan. They'll also need to be automatically enrolled at 3% to stay in compliance with the other SECURE 2.0 requirements.

#3

RETIREMENT SAVINGS LOST AND FOUND

This year, a database is being created to help employees recover lost savings from accounts they held at previous employers. In April, the Department of Labor released a Notice of Proposed Information Collection Request which asked plan sponsors to provide extensive participant information to populate the database.



What Does This Mean for Plan Sponsors?

Plan sponsors may need your help to create a list of past and present employees who have been a part of the plan. You'll want to cross-reference their data with your own to ensure you have a single comprehensive list so they can share participant information history quickly and securely when asked.

Additional Opportunities

There are a variety of ongoing optional contributions that you may want to brush up on, in case your plan sponsors or participants have questions or concerns.

#4

INCREASE IN CATCH-UP CONTRIBUTION LIMITS

Starting January 1, 2025, catch-up contribution limits will be increased for those 60-63 to \$10,000 or 150% of the current catch-up contribution limit – whichever is greater. It's important to note that those contributions will not be required to be in a Roth account until 2026 (Schwab, 2024). It is still optional for employers to include this in their plans (Graf, 2024).



What Does This Mean for Plan Sponsors?

Plan sponsors will need to amend the plan document, update salary reduction agreements, ensure the payroll system can recognize eligible participants and allow the increased limits, and of course, communicate the change to participants (Graf, 2024). You can be a valuable partner if your client chooses to make this transition by being available to answer questions and clarify things they may not yet understand.

#5

STUDENT LOAN MATCH

This optional provision hasn't seen much adoption, but as more employers become aware of it, it could have a bigger impact (Retirement Planology, 2024). Some kinks are still being ironed out, but the IRS has released guidance that says employers can accept an annual certification that the loan is a Qualified Student Loan Payment (QSLP) and also clarified that you can receive a match for paying someone else's loan only if you are legally obligated to do so (you can read that guidance [here](#)). This would mean that even if you were a co-signer, you can only receive a match if the borrower defaulted and is unable to repay their own loan (Mulholland, 2024).



What Does This Mean for Plan Sponsors?

Many plan sponsors may be thinking more critically about how to retain and attract young talent that is saddled with student loan debt. One study showed that 85% of loan borrowers would leave their current jobs to go somewhere that would help with student loans (Betterment, 2021). Be ready for this discussion so you can help partner with your plan sponsors to best support participants.

#6

WITHDRAWALS FOR DOMESTIC ABUSE

This optional provision gives employers a way to support survivors of domestic abuse. If implemented, abuse victims could take a distribution from their plan up to \$10,000 or 50% of the participant's vested account balance, whichever is less, without paying the 10% early withdrawal penalty. The distribution must be repaid within 3 years (Vanguard, 2024).



What Does This Mean for Plan Sponsors?

This could be a great opportunity to support victims of domestic violence. It will also require an increased burden on your plan sponsors' (and your own) administrative staff. Does your plan sponsor have other ways of supporting victims through an employee assistance program (EAP) or a similar program? If not, this provision may be a welcome opportunity. Discuss the options available to your plan sponsors to help them make the decision that best supports employees who are victims of domestic abuse.

#7

SELF-CERTIFICATION FOR HARDSHIP WITHDRAWALS

Plan sponsors no longer have to require documentation from an employee to claim a hardship and take a withdrawal. This provision allows the participant to certify that their hardship meets the requirements. In addition, they must certify that the amount withdrawn is not more than they need for the immediate financial crisis and that they do not have another way to obtain the needed funds.



What Does This Mean for Plan Sponsors?

This is an easy way for employees to get quick access to needed cash. However, it's important to consider the additional hurdles that could come along with this provision. The provision states that the employee can self-certify their need at the time of withdrawal, but they are also required to keep official documentation. In the event of an audit, the plan sponsor may be asked to produce this official documentation—which will mean they'll have to track it down from their participant. Ensure that your plan sponsor understands the potential risk of relying on employees to keep good records, instead of maintaining the documentation themselves (Principal, 2024).

EMERGENCY WITHDRAWALS

If permitted by the plan sponsor, employees can withdraw up to \$1,000 for an emergency expense. They are only permitted to make one withdrawal per year, and if they don't pay back the distribution, they have to wait three calendar years before they take another.

What Does This Mean for Plan Sponsors?



Permitting this type of withdrawal could be a good way for employees to get needed funds without accruing high-interest debt. However, it's important to consider if the benefits outweigh the downsides. SECURE 2.0 also offers a pathway for employers to offer non-highly compensated employees an emergency savings account, auto-enroll their employees, and offer a match. For all of these optional withdrawal provisions, it's important to think through how increased short-term withdrawals will affect long-term retirement readiness, especially if a plan sponsor is already concerned about low average balances.

CONCLUSION

Of course, there are plenty of other opportunities for your business in this bill. But with these key provisions taking effect in 2025, you'll be prepared for upcoming conversations with plan sponsors and participants. Plus, brushing up on these optional provisions will help you gracefully discuss the details with your plan sponsor clients and better serve participants, which will build trust for the long haul.

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