Charting

SECURE 2.0

Sections 115, 314 & 331
New Distribution Options

Provision(s)	Section 115 - Withdrawals for certain emergency expenses Section 314 - Penalty-free withdrawal from retirement plans for individual case of domestic abuse Section 331 - Special rules for use of retirement funds in connection with qualified federally declared disasters
Effective	Sections 115 & 314 – Effective for distributions made after December 31, 2023 Section 331 - Effective for disasters occurring on or after January 26, 2021
Mandatory	No, optional provisions subject to the plan sponsor's discretion
Summary	Early withdrawals from employer retirement accounts have historically been limited to certain situations. With few exceptions, a 10% penalty applies to these early withdrawals. As part of SECURE 2.0, legislators have eased the rules to allow increased access to retirement accounts. They also allow for more leniency regarding penalties and flexibility on taxation. Withdrawals are subject to income tax, but SECURE 2.0 allows participants to take withdrawals under the following circumstances without incurring the 10% early withdrawal penalty, removes the 20% mandatory withholding rules in these instances, and allows the possibility of paying back the withdrawal to the plan within three years, if desired. Defined contribution plans may allow employees to make an annual withdrawal of up to $1,000 for unexpected or urgent personal or family emergency expenses. If the withdrawal is not repaid directly or is paid back via salary deferrals, only one of these withdrawals is allowed every three years. Domestic abuse survivors may now withdraw up to the lesser of $10,000 or 50% of their vested account balance from certain defined contribution plans. If desired, participants may spread the payments out over three years to reduce the tax burden. Plans may allow for a qualified disaster recovery distribution (QDRD) for those whose principal residence is within a federally declared disaster area and who suffered an economic loss because of the incident. Participants may withdraw up to $22,000 per disaster per individual. If desired, participants may spread the payments out over three years to reduce the tax burden. Employers may also opt to raise loan amounts for employees impacted by federally declared disasters to the lesser of $100,000 or the full amount of their vested account balance. The plan may also extend the loan repayment period by up to one year.
Things to Consider	Employers may decide if they want to allow one or more of these distribution options. For all of these options, the exception to the 10% early withdrawal penalty and removal of the 20% mandatory federal tax withholding requirement is desirable. However, each will add a new layer of complexity to managing the retirement plan. With additional options comes additional administrative requirements and, subsequently, additional costs. Determining eligibility for each of these distribution options will take time and effort. Dealing with potential repayments of these distributions back to the plan may prove to be cumbersome. With emergency distributions, self-certification is permitted, however, employers may only rely on self-certification if there is no knowledge of the contrary. Uncomfortable situations may arise if there is knowledge to the contrary. Recordkeepers and payroll providers may not be able to readily accommodate emergency distribution requests, prevent improper distributions, and adequately handle required communications. Domestic violence distributions might serve as crucial support for those urgently needing funds, allowing affected employees to regain stability, and pay the amount back over time to their plan account. Self-certification is permitted for these as well, but these distributions give rise to privacy issues. New loan limits and longer terms for those affected by federally declared disasters increase costs and administrative complexity for employers and their service providers. IRS guidance on these topics is still absent.
MVP's Standpoint	While these new distribution options are well-intended and make savings more accessible to plan participants, we urge you to proceed with caution. Consider alternative distribution options while we wait for specific IRS guidance. Give recordkeepers and payroll providers time to put systems in place to effectively manage these distributions once guidance is available. Seek legal advice regarding associated privacy regulations if you decide to move forward with domestic violence distributions. Consider allowing natural disaster distributions only if you live in an area where natural disasters have significantly impacted a number of your plan participants. Wait for IRS guidance on whether employers will be required to provide the 3-year repayment option. It is currently unclear whether employers may opt to allow the withdrawals but choose not to allow for repayment.

At MVP Plan Administrators, we are here to assist you every step of the way. Together, we can work toward a more secure retirement future for all employees, including long-term part-time employees. Let us know how we can help you!

Please visit us at www.mvp401k.com for educational information on Secure 2.0 and more! Remember to follow us on Facebook and LinkedIn!

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