

**April 18-19, 2023**

**Lansing Center**

# CAP CON 2023



**Impacts of SECURE 2.0  
on Municipal Retirement Plans**



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Kristin focuses on compliance, plan design, product development, litigation, governance, and other legal and legislative matters impacting MERS and its customers. She is actively involved in the development and execution of MERS' strategic vision and business plan.



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John helps public sector employers maximize the success of their retirement plans through strategic plan design. With a focus on sharing information and creating mutual understanding, he serves as a liaison between employers, boards, unions and consultants throughout the decision-making process.

# Topics we will be discussing today:

- SECURE 2.0 – A bit of background information
- Plan/operational changes
- Optional plan design changes
- New tax relief and distribution options
- What SECURE 2.0 left out for government plans
- SECURE 3.0 – What might the future hold?





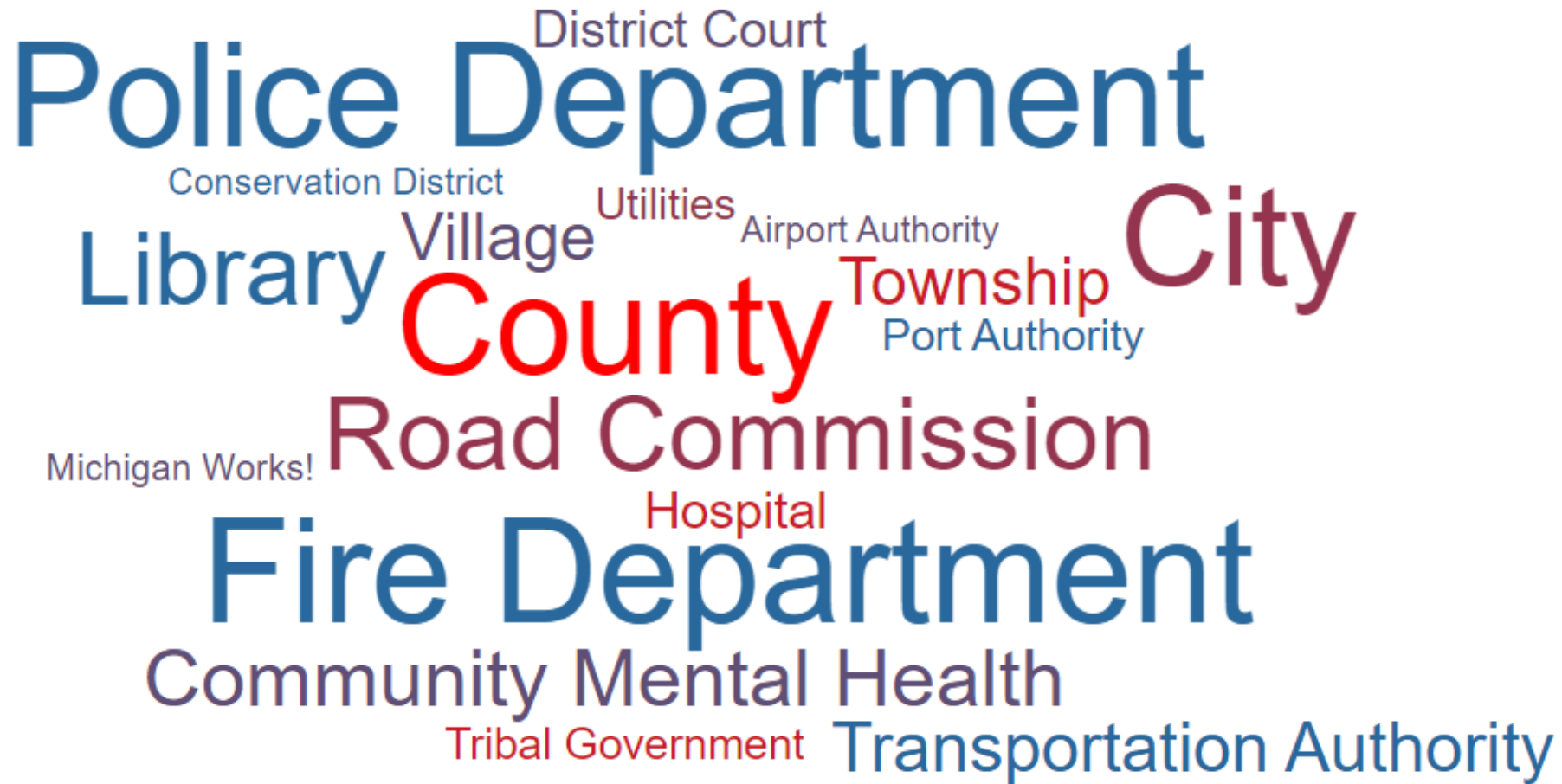
# When does **SECURE 2.0** go into effect?

- **2023 Consolidated Appropriations Act signed into law on December 29, 2022**
- **Contains more than 90 provisions**
  - Some were effective immediately
  - Some go into effect later
  - Some don't apply to most of us in this room

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# What is a governmental plan?



A word cloud featuring various Michigan governmental entities and services. The words are arranged in a cluster, with 'Police Department' and 'Fire Department' being the largest. 'County' is prominently displayed in red in the center. Other words include 'City', 'Road Commission', 'Library', 'Village', 'Township', 'District Court', 'Conservation District', 'Utilities', 'Airport Authority', 'Port Authority', 'Michigan Works!', 'Hospital', 'Community Mental Health', 'Tribal Government', and 'Transportation Authority'.

Police Department  
District Court  
Conservation District  
Library  
Village  
Utilities  
Airport Authority  
Township  
Port Authority  
City  
County  
Road Commission  
Michigan Works!  
Hospital  
Fire Department  
Community Mental Health  
Tribal Government  
Transportation Authority





# **Changes that must be implemented by plan amendments**

**What do you need to know?**

**What does a plan sponsor/fiduciary have to do?**

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# Higher ages for Required Minimum Distributions (RMD)

**EFFECTIVE IMMEDIATELY**

The Act increased age for RMD's with the goal to help participants preserve savings longer

Applicable RMD ages are determined as follows:

- Age 70½ – if you were born before July 1, 1949
- Age 72 – if you turned age 72 before 2023
- Age 73 – if you turned (or will turn) age 73 before 2033
- Age 75 – if you will turn age 74 after 2032

The penalty tax for missing an RMD has been reduced from 50% to 25%

# **RMD's eliminated for employer sponsored Roth plans**

**EFFECTIVE 2024**

**While RMD's have never been required for Roth IRA's, pre-death distributions are currently required for Roth designated accounts in an employer retirement plan, such as 457(b) or 401(k)**

**These required pre-death distributions will be eliminated**



# **Catch-up contributions must be Roth for those earning more than \$145k**

**EFFECTIVE 2024**

**Currently, catch-up contributions can be made on a pre-tax or Roth basis (if permitted by the plan sponsor)**

**This can impact more than just those employees who earn more than \$145k**

**If ANY employees in a plan earn more than \$145k, the plan must permit Roth contributions or it will no longer be able to allow catch-up contributions for ANY employees**

# **Repayment of qualified birth or adoption distributions limited to 3 years**

## **EFFECTIVE IMMEDIATELY & RETROACTIVELY**

Individuals may receive distributions from their retirement plan in the case of birth or adoption without paying the 10% additional tax

The distributions can be repaid to a retirement plan or IRA and are treated as timely rollovers, with the re-contribution period limited to 3 years

Effective both going forward and retroactively to the 3-year period beginning on the day after the date on which such distribution was received

Helps participant manage financial priorities so they can achieve long-term financial security



# **Other optional plan design enhancements**

**Plan sponsors may want to consider making these changes to streamline administration and improve participant outcomes**

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# 457(b) plan contribution rate changes can be made at any time

## OPTIONAL - EFFECTIVE IMMEDIATELY

**Eliminates the “first day of the month” rule that applied 457(b) plans only**

**Previously, participants had to request changes prior to the beginning of the month in which the deferral would be made**

**This change aligns governmental 457(b) plans with private sector 401(k) and 403(b) plans**

This changes the rules for **457(b) plans only**.

Changes to employee contributions made to a 401(a) defined contribution plan are still **not permitted**.



# Self-certification allowed for unforeseeable emergency distributions

## OPTIONAL - BEGINNING IMMEDIATELY

Plans are permitted to rely on the participant's written self-certification that:

- 1) the circumstances were unforeseeable and it is a financial emergency
- 2) the amount requested does not exceed the financial need; and
- 3) the participant has no reasonable alternative

Self-certification is *not* permitted if the plan administrator has actual knowledge that is contrary to the participant's certification

# **Student loan payments may qualify for employer matching contributions**

## **OPTIONAL - BEGINNING 2024**

**Employers may elect to consider qualified student loan payments an “elective deferral” for purposes of matching employer contributions**

**Matching contributions may be pre-tax or Roth**

**Helps participant manage financial priorities so they can achieve long-term financial security**

# Higher catch-up limits for ages 60-63

## OPTIONAL - BEGINNING 2025

Currently, employees aged 50+ are permitted to make catch-up contributions of \$7,500 (2023 limit)

**SECURE 2.0** creates an additional “tier” of catch-up contributions

Increased catch-up limit for those age 60-63 equal to the greater of:

- \$10,000 OR
- 150% of the regular catch-up amount

Help participants preserve savings longer



# Changes to tax rules for participants

Tax relief that impacts your employees, retirees and co-workers

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# **Rollovers from 529 plan to Roth IRA permitted**

**EFFECTIVE 2024**

**Tax and penalty-free, direct trustee-to-trustee rollovers from 529 educational savings accounts to Roth IRAs will be permitted**

**Certain conditions apply**

- **Subject to Roth IRA annual contribution limits**
- **529 account must have been open for more than 15 years**
- **529 designated beneficiary/Roth IRA owner must have includible compensation at least equal to the amount of the rollover**

**Owners of a 529 account can change the designated beneficiary to themselves and transfer the account value to their own Roth IRAs**

# **Exclusion for health and long-term care insurance no longer requires direct pay**

## **EFFECTIVE IMMEDIATELY**

**Current law allows public safety officers to exclude up to \$3,000 from their taxable income for health and long-term care insurance premiums**

**The requirement for those premiums to be paid directly by the retirement plan has been repealed, easing the burden on plan administrators which makes it more likely plans will adopt it, benefiting retirees**

# Tax relief for emergency and other related distributions

## VARIOUS EFFECTIVE DATES

The 10% penalty tax has been removed for emergency and other distributions, including:

- Terminal illness
- Emergency expenses (up to \$1,000 per year)
- Domestic abuse (greater of \$10,000 or 50% of vested balance)
- Loans in disaster areas

# **Exclusion of disability first-responder payments**

**EFFECTIVE 2027**

**Provides significant income tax relief for disabled first responders**

**Qualifying first responders are defined as law enforcement officers, firefighters, paramedics and emergency medical technicians (EMTs) who receive service-connected disability and retirement pensions**



# Auto escalation and auto enrollment are plan design best practices

Effective immediately, most new 401(k) and 403(b) plans must include:

- Automatic enrollment at 3% - 10% in first year
- Automatic escalation of 1% per year to a up to a minimum of 10% and maximum of 15%

These requirements DO NOT apply to governmental plans, but are a best practice employers should consider

- Plans with automatic enrollment have significantly higher participation
- Increased participation amongst younger, lower-paid employees and reduces racial gap in participation rates



# Predicting the future

**Will SECURE 2.0 do enough to improve retirement outcomes?**

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# Americans are unprepared for retirement

50% of women and 47% of men between the ages of 55 and 66 have **NO** retirement savings

*Source: U.S. Census Bureau data*



# Will there be a **SECURE 3.0**?

**SECURE Act and SECURE 2.0 created new provisions to help Americans boost their nest eggs, they also left some ideas on the cutting-room floor**

**A SECURE 3.0 bill could be considered in the 118th Congress, although prospects for a bill as comprehensive as SECURE 2.0 may be complicated**





# Issues policymakers may consider

**Expand auto-enrollment**

**Catch-up contributions for caregivers**

**Fewer paper statements**

**Investment options for 403(b) plans**

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