



## SECURE 2.0 – The Top Five Provisions Plan Sponsors Ask About

By now you've heard that SECURE Act 2.0 contains over 90 provisions affecting retirement plans and IRAs and we are still anxiously awaiting more implementation guidance from the Department of Labor and IRS. Which provisions weigh heaviest on the minds of plan sponsors? The top five most asked about provisions by Pentegra's plan sponsor clients include the following:

1. All catch-up contributions (for participants age 50 or over) to qualified retirement plans must be designated as after-tax Roth contributions, unless a participant has compensation of \$145,000 or less.

This provision is mandatory and the effective date was recently postponed to January 1, 2026 (from January 1, 2024) in order to allow time for service providers and Sponsors to properly administer this change.

The \$145,000 figure will be indexed for inflation and applies to prior year compensation paid by the employer sponsoring the plan. Plan sponsors and administrators will need a mechanism, like the one for Roth IRAs, to recharacterize pre-tax catch-up contributions to designated Roth catch-ups and vice versa.

2. Sponsors can provide de minimis financial incentives to employees to encourage employee deferrals in 401(k) and 403(b) plans.

This provision is optional and could be used as early as 2023. It's likely that a plan amendment would not be necessary. Financial incentives could include such things as a small-value gift card. Whatever the incentive, they cannot be paid for with plan assets. The term "de minimis" is not defined; a suggested safe amount is \$25. Clarification is needed on whether the amount should be treated as compensation.

3. Plans can increase the cash out limit from \$5,000 to \$7,000.

This provision is optional and, if adopted, could apply as early as for distributions made in 2024. A conforming plan amendment would be due by the end of the 2025 plan year.

4. Defined contribution (DC) plans must provide paper benefit statements at least once annually, and defined benefit (DB) plans must do so every three years.

This provision is mandatory and effective for 2026 and later years. Participants could opt out of receiving a hard copy, however. Exceptions apply for plans that follow the 2002 safe harbor electronic delivery rules.

5. The penalty for failing to take required minimum distributions (RMDs) drops from 50 to 25 percent and, may be further reduced to 10 percent if timely corrected.

This provision is mandatory and effective for 2023 and later years. To further reduce the penalty from 25 to 10 percent, taxpayers must take the RMD before the earlier of 1) the IRS issuing a notice or assessing a penalty for the failure or 2) the second year after the year the RMD was due.

Plan sponsors and their advising committees should document discussions related to SECURE Act 2.0 provisions. Which of the optional provisions will the plan include? How will the mandatory provisions be implemented? Decisions must be made, especially regarding those provisions that are optional versus mandatory, always keeping in mind what is best for plan participants and beneficiaries.

This material is provided solely for informational purposes and does not constitute investment, tax, legal or accounting advice on the matters addressed

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