Client Alert

February 2025

2025 Changes for 401(k) Plans and IRAs Under the SECURE 2.0 Act

It is important to monitor and follow new law changes for 401(k) Plans and Individual Retirement Accounts ("IRAs") that were enacted under the Setting Every Community Up for Retirement Enhancement 2.0 Act ("SECURE 2.0"). This means complying with changes or updates to the rules that are being phased in over several years.

Mandatory Automatic Enrollments

For 401(k) Plans established on or after December 29, 2022, this means implementing mandatory automatic enrollment in 2025, unless an exception applies.

The initial automatic enrollment contribution must be at least 3%, but not more than 10%. For subsequent years, the percentage must increase by 1% until it reaches 10% but not more than 15%. Employees may opt out of plan participation or choose to change an alternate contribution percentage without penalty.

These mandatory or automatic enrollment contribution arrangements apply to all 401(k) plans, except for small businesses with 10 or fewer employees, plan sponsors that have been in business for less than 3 years, SIMPLE plans, church plans and governmental plans.

Discretionary Super-sized Catch-up Contributions for Participants Aged 60-63

SECURE 2.0 permits 401(k), 403(b) and 457(b) governmental plans to offer an increased contribution to participants attaining the ages of 60, 61, 62 or 63 by the end of the taxable year. For any participant whose employer earnings are greater than $145,000, all catch-up contributions must be made on a ROTH basis (so long as ROTH contributions are permissible under the plan). Those participants whose employer earnings are less than $145,000, those contributions may be made on a pre-tax or ROTH basis.

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The amount of this Super-sized Catch-up is the greater of $10,000 or 150% of the 2024 regular catch-up contribution limit as indexed for inflation.

New Required Beginning Date Ages

New final regulations addressed changes made for required minimum distributions ("RMDs") and apply to distributions for calendar years beginning on January 1, 2025.

The Required Beginning Date ("RBD") is the date by which RMDs must commence. RMDs must begin to be taken by April 1 of the calendar year following the year the participant/employee/IRA owner reaches the applicable RMD age. The final regulations determine that the RBD is based on the participant's or IRA owner's date of birth:

- 70 ½ if born before July 1, 1949
- 72 if born on or after July 1, 1949 and before 1951
- 73 if born on or after January 1, 1951 and before 1960
- 75 if born on or after 1960

New 10-year Rule for Inherited IRAs

New rules provide that if an IRA is inherited from an IRA owner who died on or after January 1, 2020, you are required to withdraw all of the funds in the IRA no later than December 31 of the tenth (10th) year following the death of the IRA owner.

There are a few limited exceptions for inherited IRAs, where distributions may be taken over a longer period of time. These include distributions to:

- A surviving spouse
- A child of the decedent under the age of 21
- A beneficiary who is not more than 10 years younger than the decedent
- An individual who is disabled or chronically ill

For those who meet the above exceptions, you must withdraw funds over your lifetime commencing in the year following the decedent's death. A surviving spouse may also transfer the inherited amounts from the

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decedent's IRA to the spouse's own IRA and is not then required to start distributions until they reach their respective RBD.

Long-Term Part-Time Employees

SECURE 2.0 redefined the Long-Term Part-Time Employees to mean those employees who have completed at least 500 hours of service in two (2) consecutive years, rather than the three (3) years previously required. This applies to all employees who are at least 21 years of age and for plan years beginning after December 31, 2024.

Our Employee Benefits Practice Group can help you to understand these law changes and how to implement them in your applicable plans.

Please contact the Olshan attorney with whom you regularly work or the Practice Group Leader, Stephen Ferszt, if you would like to discuss further or have any questions.

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