REID & RIEGE
ATTORNEYS

Single Employer Benefits & Pension Alert

YEAR END CONSIDERATIONS FOR EMPLOYER-PROVIDED RETIREMENT PLANS | DECEMBER 2024

As 2024 comes to a close, it is a good time to review how some of the recent changes under the SECURE 2.0 Act of 2022 and the original SECURE Act impact qualified retirement plans. While the deadline for adopting plan amendments related to these legal changes is not until December 31, 2026 (or December 31, 2028, for collectively bargained plans or December 31, 2029, for governmental plans), qualified plans must be operated in accordance with any required changes as of the effective date of the law change. The following is a summary of some of the noteworthy changes that recently took effect or will soon become effective.

A. PARTICIPATION OF LONG-TERM PART-TIME EMPLOYEES IN 401(K) PLANS

401(k) plans are now required to permit "long-term part-time employees" (LTPT employees) to contribute to a 401(k) plan. An LTPT employee is an employee who has completed at least 3 consecutive 12-month periods of service, with at least 500 hours of service in each of the 12-month periods. Employees eligible under this new standard may be excluded from receiving employer contributions and may be excluded when applying nondiscrimination testing.

This change was effective for plan years beginning after December 31, 2020. However, employers are not required to take into account years of service prior to January 1, 2021, for purposes of meeting the 3-year, 500-hour requirement. Therefore, the first year that an LTPT employee would have to be allowed to make deferrals was January 1, 2024.

Effective for plan years beginning after December 31, 2024, the service requirement for LTPT employees will be reduced to 2 consecutive years.

Employers who impose a service requirement of more than 500 hours of service a year before an employee can make employee contributions to a 401(k) plan will have to amend their plans to comply with this requirement.

B. REQUIRED MINIMUM DISTRIBUTIONS FOR ROTH 401(K) CONTRIBUTIONS

A Roth IRA account holder does not have to take required minimum distributions (RMDs) during the IRA owner's lifetime but, before 2024, lifetime RMDs were required from a designated Roth contribution account in an employer-sponsored qualified retirement plan. Effective beginning with RMDs for 2024, designated Roth accounts in employer sponsored retirement plans are not subject to the RMD requirements during a participant's lifetime. Under this new rule, designated Roth accounts will no longer be included in the RMD calculation during a participant's lifetime.

Under the proposed RMD regulations issued in July 2024, a lifetime distribution from a designated Roth account would be an eligible rollover distribution and cannot be used to satisfy a participant's RMDs.

C. SURVIVING SPOUSE CAN BE TREATED AS EMPLOYEE FOR RMD PURPOSES.

Effective January 1, 2024, a qualified defined contribution plan may allow a surviving spouse who is the participant's designated beneficiary to elect to be treated as the deceased participant for purposes of the RMD rules. Generally, this means that the surviving spouse may elect to delay RMDs until the participant's applicable RMD age.

D. INCREASED CASHOUT LIMIT

Effective for distributions occurring after December 31, 2023, the upper limit of an involuntary cash-out distribution has increased from $5,000 to $7,000. A plan is now permitted to distribute a participant's benefit under a qualified plan without the consent of the participant if the present value of the participant's vested accrued benefit (or vested account balance in a defined contribution plan) is $7,000 or less. If the benefit is $1,000 or less, the distribution may be a lump sum cash distribution. If the benefit is between $1,000 and $7,000, the distribution must be rolled over to a designated IRA established by the Plan sponsor unless the participant elects a different form of distribution. This is an optional change that employers may choose to adopt.

E. HIGHER CATCH-UP CONTRIBUTION LIMIT

Effective January 1, 2025, the maximum annual catch-up contribution for employees ages 60 through 63 will be increased to the greater of $10,000, or 150% of the regular catch-up amount for 2024. This increased limit is $11,250 for 2025 (150% of the regular catch-up limit of $7,500). This is an optional change that employers may choose to adopt. However, we recommend that plan sponsors with plans that are not on a document drafted by our firm review their plan documents to verify that such an increase is not automatic under the terms of the plan. Additionally, plan sponsors may want to contact their vendors because we understand that some vendors are requiring plan sponsors to affirmatively opt out of this higher catch-up contribution limit.

F. CATCH-UP CONTRIBUTIONS REQUIRED TO BE ROTH CONTRIBUTIONS

Effective January 1, 2026, catch-up contributions made by employees who earned more than $145,000 in the prior year will be required to be Roth (i.e., post-tax) contributions. This change does not affect an employee earning $145,000 or less, who would otherwise be able to elect whether to make catch-up contributions as Roth or pre-tax contributions. This rule was originally going to be effective January 1, 2024, but the IRS delayed the effective date for two years due to taxpayer, employer and payroll provider concerns with implementing the new rules by the 2024 effective date.

G. NOTICES TO UNENROLLED PARTICIPANTS

Effective for plan years beginning after December 31, 2022, plan sponsors do not have to provide SPDs and other notices to unenrolled, eligible employees in individual account plans as long as those employees receive the SPD and other notices when they are initially eligible and they receive an annual reminder that they are eligible to participate in the plan and that they may receive other notices upon request.

NEXT STEPS

While there are generally no plan amendments required by December 31, 2024, if there were any plan design changes effective in 2024, plan amendments may be required before the end of this year or earlier if the design change eliminates or reduces a protected benefit.

Please contact us if you would like to discuss any of the changes outlined above.

The Reid and Riege Single Employer Benefits & Pension Alert is a publication of Reid and Riege, P.C. The Alert is designed to provide clients and others with general information on recent developments which may be of interest or helpful to them. It is intended to be for discussion purposes only and it is not intended and should not be construed to provide any legal advice with respect to any specific matter. Readers are urged not to act on this information without consultation with their counsel. It is not intended to create, and the receipt of it does not create, an attorney-client relationship between sender and receiver. If you have any questions or require further information regarding this information or other related matters, please direct your inquiry to a member of the firm.

This edition of the Single Employer Benefits & Pension Alert was written by the Single Employer Benefits & Pension practice at Reid and Riege, P.C. The practice works closely with clients to design and draft tax-qualified and nonqualified retirement plans.

For information or additional copies of this Alert, or to be placed on our mailing list, please contact the Reid and Riege attorney with whom you regularly work or a member of the practice listed below:

Brendan Butler
(860) 240-1015
bbutler@rrlawpc.com

Pamela B. Fleming
(860) 240-1078
pfleming@rrlawpc.com

Lori L. Underberger
(860) 240-1075
lunderberger@rrlawpc.com

For information regarding Reid and Riege, P.C., please visit our website at www.rrlawpc.com or contact us at:

Reid and Riege, P.C.
One Financial Plaza, 21st Floor
Hartford, CT 06103

or

Reid and Riege, P.C.
234 Church Street, 9th Floor
New Haven, CT 06510

© 2025 Reid and Riege, P.C. - All Rights Reserved