

A background image showing a group of business professionals in a meeting. One person is holding a smartphone, and another is holding a coffee cup. The image is partially obscured by a white diagonal shape.

NAVIGATING THE SECURE ACT: Insights for qualified retirement plans in 2025

NOVEMBER 2024

Agenda for Today

- 1) Introduction
- 2) 2025 IRS Limits
- 3) What is the SECURE Act?
- 4) Plan Design Considerations
- 5) Best Practices for Compliance
- 6) Questions



About BDO's Retirement Plan Services





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Experience

Nicole Parnell is a Principal in BDO's Global Employer Services practice, leading the national Retirement Plan Services specialty group which includes Third Party Administration, Actuarial Services and ERISA Compliance & Reporting. With more than 25 years of experience in the administration of Qualified Retirement Plans, she is a technical leader in all facets of plan design, operation and compliance.

Nicole's experience includes advising businesses across all industries and sizes on the implementation and administration of retirement plans including, but not limited to, 401(k) Profit Sharing, Cash Balance and Employee Stock Ownership Plans. She has extensive experience consulting with business owners and executives on the strategic and tax benefits of employee benefit plans.

Nicole has presented on Qualified Plan Administration Topics including at BDO's National Training Conferences.

Education

- ▶ B.S., Accounting and Finance, Old Dominion University

Professional Affiliations

- ▶ American Society of Pension Professionals & Actuaries
- ▶ The ESOP Association

BDO's Retirement Plan Services

Employee satisfaction affects overall business productivity. Without a clear employee benefit plan, businesses can suffer setbacks, fail to attract highly skilled or experienced individuals, or even lose valuable members of your team. The most difficult aspect of selecting a benefit plan tailored to your company's needs is sifting through the overwhelming number of options.

Working with a firm that can provide unbiased recommendations coupled with extensive experience will enable you to make the decisions that ensure the most prosperous future for your company and your employees.

[BDO's Retirement Plan Services \(RPS\) practice](#) works collaboratively with our clients to tailor plans to their unique business needs. We assess resources, competitive standing, industry trends, and long-term goals to help each client give its employees the best possible retirement benefit. BDO has more than 40 years of experience in RPS and a track record of delivering the highest level of client service. Our team works tirelessly to design a retirement plan for your business that is competitive, cost-effective, and compliant with ever-changing legislation.

ERISA CONSULTING & ADMINISTRATION 	Qualified retirement plans are regulated under the Employee Retirement Income Security Act of 1974 (ERISA). Our professionals provide comprehensive design, administration and operational support for all qualified retirement plans, including 401(k), Profit Sharing, ESOPs, health & welfare, traditional defined benefit pension, and cash balance plans. We perform annual compliance testing, prepare plan documents and government filings, including Form 5500, and assist clients with plan corrections under IRS and Department of Labor (DOL) programs, including self-correction and voluntary compliance filings. Our team also provides plan compliance reviews and due diligence related to mergers and acquisitions.
ACTUARIAL SERVICES 	A key step in designing effective employee benefit plans is to measure and manage risk. We provide actuarial services to cash balance and other tax-qualified defined benefit plans in addition to retiree health/welfare and non-qualified plans. We design employer-tailored cash balance plans and support them with implementation and annual administration. Our team is also a resource for long- and short-term planning, funding, accounting, termination, and mergers & acquisitions related to these plans.
STAY INFORMED	
 Listen to the BDO Talks ERISA Podcast for conversations around all things ERISA and HR-related topics.	 Visit the ERISA Center of Excellence for meaningful insights and deep technical knowledge for those charged with governance.

2025 IRS RETIREMENT PLAN LIMITS



LIMITS FOR QUALIFIED RETIREMENT PLANS

PLAN LIMITS	2025	2024	2023
Annual Compensation Limit	\$350,000	\$345,000	\$330,000
Taxable Wage Base for Social Security	\$176,100	\$168,600	\$160,200
Elective Deferral Contributions to a 401(k), 403(b), 457(b)	\$23,500	\$23,000	\$22,500
Catch-Up Contributions to 401(k), 403(b), 457(b) at age 50	\$7,500	\$7,500	\$7,500
Defined Contribution Plan Limit	\$70,000	\$69,000	\$66,000
Defined Benefit Plan Dollar Limitation	\$280,000	\$275,000	\$265,000
Highly Compensated Employee Threshold	\$160,000	\$155,000	\$150,000
Top-Heavy Key Employees – Officers	\$230,000	\$220,000	\$215,000
Top-Heavy Key Employees – 1% Owners	\$150,000	\$150,000	\$150,000
SEP Minimum Compensation	\$750	\$750	\$750
SIMPLE IRA 401(k) Employee Deferrals	\$16,500	\$16,000	\$15,500
Catch-up Contributions to a SIMPLE IRA at age 50	\$3,500	\$3,500	\$3,500
IRA Contribution Limit	\$7,000	\$7,000	\$6,500
IRA Catch-Up Contribution Limit at age 50	\$1,000	\$1,000	\$1,000

Overview of SECURE Act

SECURE Act - Setting Every Community Up for Retirement Enhancement Act

- Originally enacted in December 2019 to expand retirement opportunities for employees to save and to help ease administrative burdens of employers
- Over 90 different provisions included making it an extensive and landmark legislation
- SECURE 2.0 enacted in 2022 both expanding and providing additional guidance on provisions
- Challenges on implementation of some provisions, extensions of effective dates, and still pending guidance

HIGHLIGHTS OF SECURE 2.0

Effective in 2023	Effective in 2024
Modification of tax credit for small employer pension plan startup costs	Starter 401(k) Plans for Employers with No Retirement Plan
Eliminating unnecessary plan notice requirements related to unenrolled participants	Long-term Part-time Employees (LTPT) provisions
Employee Certification for Hardship Withdrawals	Increase in Mandatory Cash-Out limit from \$5k to \$7k
Increase in Age for Required Beginning Date for RMDs *73 for individual who attains age 72 after December 31, 2022, and age 73 before January 1, 2033 Reduction in excise tax from 50% to 25% for failure to take RMD	Additional early withdrawal exceptions for emergency expenses: • Up to \$22,000 for expenses related to a federally declared disaster made within 180 days of the disaster occurring • Terminal illness, defined as a condition that will cause death within seven years, as certified by a physician • Up to \$1,000 per calendar year for personal or family emergency expenses to meet unforeseeable or immediate family needs • The lesser of \$10,000 (indexed for inflation) or 50 percent of the account value for victims of domestic abuse
Roth allowed in SEP / SIMPLE Plans	Treatment of student loan payments as elective deferrals for purposes of matching contributions
Retroactive first-year elective deferrals for Sole Proprietors	Roth 401(k) assets no longer included in the calculation of Required Minimum Distributions

The SECURE Act - "Setting Every Community Up for Retirement Enhancement" Act

Plan Design Considerations for 2025

CATCH-UP CONTRIBUTION LIMITS

ENHANCED CATCH-UP CONTRIBUTIONS ALLOWABLE

- Effective 1/01/2025 for 401(k), 403(b) and 457(b) plans
- Plan Sponsor may choose to add these provisions
- Allowable for participants ages 60 - 63, increased to:
 - The greater of \$10,000 OR
 - 150% of the regular catch-up amount limit
 - ❖ $150\% * \$7,500 = \$11,250$ additional savings
- Provides greater opportunity for individuals to enhance their retirement savings as they reach Normal Retirement Age (65)



STANDARD CATCH-UP AGE 50+, not ages 60-63

- Applicable for 401(k), 403(b) and 457(B)
- Limit remains at \$7,500



COMING IN 2026 - unless extended again:

- Applicable for 401(k), 403(b) and 457(B)
- Participants with compensation exceeding \$145,000 (as indexed) must contribute catch-up on a Roth (post-tax) basis
- Don't forget the 5-year clock to ensure earnings on Roth amounts are tax free so deferring Roth prior to 2026 may be advantageous to some employees

AUTOMATIC ENROLLMENT - 2025

WHO IMPACTED

- ▶ New 401(k) & 403(b) plans established *after* 12/29/2022
- ▶ For 401(k) plans - “established” means the initial adoption date of the deferral feature
- ▶ Exempt from requirement if:
 - Less than 10 employees
 - Less than 3 year of existence for business
 - SIMPLE 401(k) plans
 - Church or governmental plans

REQUIRED FEATURES

- ▶ Initial deferral rate must be between 3% and 10%
- ▶ Auto escalation required at least 1% annually to no less than 10%; 15% maximum
- ▶ Can set initial deferral at 10% to avoid required escalation
- ▶ Default investment options
- ▶ Participant disclosures
- ▶ Opt-out feature

WHY BENEFICIAL

- ▶ Increase retirement savings rates
 - Especially in plans with matching contributions
- ▶ Simplify & increase participation
- ▶ Increase employee retention
- ▶ Improved results in ADP/ACP Testing results

AUTOMATIC ENROLLMENT – LET’S EXPAND ON WHO IMPACTED

SECURE 2.0 was enacted on December 29, 2022.

- 401(k) plans “established” on or after the date are considered post-enactment plans.
- Plans “established” before the date are considered pre-enactment plans.
- Only post-enactment plans are subject to the automatic enrollment mandate unless a new or small business exemption applies.
- Notice 2024-02 defines “established” as the initial adoption date of the plan’s wage deferral feature, even if the plan’s effective date is later. Examples below:
 - 401(k) plan with a January 1, 2023, effective date would not be subject to the mandate if adopted prior to December 29, 2022.
 - In contrast, a profit-sharing only plan that converts to a 401(k) plan on or after December 29, 2022, would be, regardless of the age of the plan.

<https://www.irs.gov/pub/irs-drop/n-24-02.pdf>

AUTOMATIC ENROLLMENT – LET’S EXPAND ON WHO IMPACTED

What if there are plan mergers or spin-offs?

Notice 2024-02 includes guidance about how mergers and spinoffs will affect the pre- or post-enactment status of a plan.

- Merging two pre-enactment plans - the surviving plan will continue to be treated as a pre-enactment 401(k) plan.
- Merging pre- and post-enactment plans - the surviving plan will not be treated as a pre-enactment plan unless the merger meets specific requirements in which the pre-enactment plan is the surviving plan.
- Spin-off plan - if part of a pre-enactment plan is spun-off to create a new plan, the new plan will continue to be treated as a pre-enactment 401(k) plan.

Employers that join a pre-enactment Multiple-Employer Plan (MEP) or Pooled Employer Plan (PEP) after December 29, 2022, will be treated as adopting a post-enactment plan.

AUTOMATIC ENROLLMENT - LET'S EXPAND ON WHO IMPACTED

WHO IS A COVERED EMPLOYEE?

IRS has not issued guidance as to provide a clear definition of who is a “covered employee” subject to the mandatory auto enroll feature.

The following options appear to be most applicable:

1. Any employee hired on or after that date; or
2. Any employee who does not have an affirmative election on file as of that date.

Example:

Employer adopts a 401(k) plan in 2023 with a calendar year end. The 401(k) plan doesn't meet any of the allowable exemptions, so mandatory auto enroll applies.

- Smith is hired in 2023 and becomes a participant in 2024. He doesn't complete a deferral election.
- Jones is hired in 2025 and will become a participant in 2026.

If option 1 is used - only Jones would get auto enroll notice before his entry date because Jones' hire date was in 2025.

If option 2 is used, both Jones and Smith receive an auto enroll notice. Moreover, Smith would have to receive his notice prior to 2025 for the auto enroll feature to begin in 2025. Jones would still get his notice before his entry date in 2026.

Due to the potential timing of auto enroll notices, it is critical that we receive guidance soon on how to define “covered employees.”

LONG TERM PART-TIME EMPLOYEES (LTPTs)

WHO IMPACTED

- ▶ 401(k) plans with part-time employees typically ineligible to contribute, regardless of years worked for employer
- ▶ 2019 SECURE Act allowed employees, who have worked at least 500 hours in 3 consecutive years, to be able to start contributing deferrals effective in 2024
 - Note employment counted starting from 1/01/2021

REQUIRED PROVISIONS

- ▶ SECURE 2.0 - reduced the 3-year period to 2 years; effective in 2025 & later
- ▶ No employer contributions are required, only deferrals
- ▶ Vesting credit provided for each year ee works at least 500 hrs but less than 1000 hrs
 - This vesting carries over should the ee later become eligible for er contributions
- ▶ LTPTs can be excluded from nondiscrimination & top-heavy Testing

CONSIDERATIONS

- ▶ Increased participations and retirement savings
- ▶ Retention of long term ee's
- ▶ Could impact requirement for annual plan audit due to increased participant count
- ▶ Administrative burden of tracking of hours & ensuring timely enrollments
- ▶ Increased cost of administration

LONG TERM PART-TIME EMPLOYEES

Other Plan Design opportunities that could be impactful:

- Lower the eligibility requirements for the plan so that **all employees**, including those working at least 500 hours, are eligible to at least make salary deferrals.
 - This would help reduce the risk of tracking eligible participants and timely enrolling as there would be no need for a separate category of LTPT employees.
- Use the elapsed time method for determining eligibility prospectively . This would allow the plan sponsor to look at periods of service vs hours of service – which can be much easier to administer.
- The Plan Sponsor is still allowed to exclude certain classes from the plan if it's clearly defined such as a specific job classification. Not based on age or service.
 - 410(b) coverage testing must pass every year
- Stay on top of terminated balances and distributing those under the mandatory threshold, recently increased to \$7,000; this will help keep the balance count cleaned up that could impact the annual audit requirement .

Most important: Engage with service providers that are well informed on the employee demographics, anticipated hiring, or other business changes that could impact design as well as the best eligibility provisions for operational efficiency & compliance.

Best Practices & Other Considerations for Compliance

BEST PRACTICES FOR PLAN SPONSORS

- ▶ Stay informed of all regulatory changes including timing & implementation considerations.
- ▶ Discuss with Service Providers including Third Party Administrators, Recordkeepers, Payroll Providers and CPAs.
 - Are there ways to improve administrative efficiencies?
 - Are there tax savings opportunities through expanded tax credits for retirement plans?
- ▶ Periodic benchmarking of all service providers to ensure operational compliance, efficiency, and reasonable costs.
- ▶ Review plan design and plan document every year to analyze changes in the business and impact of law changes.
 - Growing employee population, expansions through M&A activity, budgetary considerations, changes in ownership.
 - Be proactive before making business decisions to understand any impact to plan(s).
 - Document in permanent employer records all plan related compliance items, including executed plan documents & amendments.
- ▶ Ensure full understanding of Fiduciary responsibilities, even if working with other providers who take on some fiduciary role.
- ▶ Timely employee education and consistent communication.
- ▶ Does the Plan Sponsor maintain other types of plans? Ex. ESOP, Cash Balance Plan.

PLAN AMENDMENTS

- ▶ IRS issued notice to extend the deadline for both required and discretionary amendments related to SECURE to:
 - On or before the last day of the plan year beginning on or after January 1, 2026.
 - Timing applies to all 401(k), 403(b) and non-governmental 401(a) plans.
- ▶ Service providers are working on finalizing the amendments
 - Ex. BDO uses FT William and the amendments are not available other than for Plan Terminations.
- ▶ Plans still must operate in accordance with the applicable required law changes - and based on the statutory effective dates.
 - Be sure to clearly document all changes made, including any that are optional, to ensure accuracy when the amendment is completed.
- ▶ If a Plan Sponsor intends to terminate their plan, the plan must first be amended for SECURE to ensure compliance with current law.

RETIREMENT PLAN STARTUP COSTS - TAX CREDITS

Employers may be able to claim a tax credit of up to \$5,000, for three years, for the costs of starting a SEP, SIMPLE IRA or 401(k) Plan.

Which Employers are eligible?

- 100 or fewer employees who received at least \$5,000 in compensation from you for the preceding year;
- at least one plan participant who was a non-highly compensated employee (NHCE); AND
- In the three tax years before the first year, you're eligible for the credit, your employees weren't substantially the same employees who received contributions or accrued benefits in another plan sponsored by you, a member of a controlled group that includes you, or a predecessor of either.

Amount of the credit

If 50 or < employees, the credit is 100% of your eligible startup costs, up to the greater of:

- \$500; OR
- The lesser of:
 - \$250 multiplied by the number of NHCEs who are eligible to participate in the plan, or
 - \$5,000

If 51 - 100 employees, the credit is 50% of your eligible startup costs, up to the greater of:

- \$500; OR
- The lesser of:
 - \$250 multiplied by the number of NHCEs who are eligible to participate in the plan, or
 - \$5,000

RETIREMENT PLAN STARTUP COSTS - TAX CREDITS

Auto-enrollment tax credit

An eligible employer that adds an auto-enrollment feature to their plan can claim a tax credit of \$500 per year for a 3-year taxable period beginning with the first taxable year the employer includes the auto-enrollment feature.

Tax credit for plan contributions

Small employers may claim a tax credit for plan contributions made to a defined contribution plan, SEP or SIMPLE IRA plan. The tax credit is not available for contributions to employees earning more than \$100,000 (for 2023).

For employers with 1-50 employees, the tax credit available for each participant is:

- First plan year: 100% of contribution, up to \$1,000
- Second plan year: 100% of contribution, up to \$1,000
- Third plan year: 75% of contribution, up to \$1,000
- Fourth plan year: 50% of contribution, up to \$1,000
- Fifth plan year: 25% of contribution, up to \$1,000

For employers with 51-100 employees, the tax credit available for each participant is:

- First plan year: 100% minus 2% for each employee exceeding 50 limit
- Second plan year: 100% minus 2% for each employee exceeding 50 limit
- Third plan year: 75% minus 2% for each employee exceeding 50 limit
- Fourth plan year: 50% minus 2% for each employee exceeding 50 limit
- Fifth plan year: 25% minus 2% for each employee exceeding 50 limit

No deduction allowed

You can't both deduct the startup costs and claim the tax credit for the same expenses. You aren't required to claim the allowable credit.

<https://www.irs.gov/retirement-plans/retirement-plans-startup-costs-tax-credit>

<https://www.irs.gov/pub/irs-pdf/f8881.pdf>

Questions?





About BDO USA

At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes — for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

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