Gearing up for SECURE 2.0 in 2024

UHY Presenters

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UHY Overview

- AICPA Employee Benefit Plan Audit Quality Center Member
- Over 400 employee benefit plans
- Experience with every type of plan
- Firm of specialists
- Regulatory environment
- Quality measures

SECURE 2.0 Act Overview

The SECURE 2.0 Act

Key Provisions

- Increase required minimum distribution (RMD) age
  - Increase the beginning date for RMDs from age 72 to 73 starting in 2023 and age 75 in 2033. Starting in 2024, Roth accounts will be exempt from the RMD rules while the participant is alive.
- Increase catch-up contributions
  - In 2023, catch-up contribution limit for those over 50 is $7,500. Starting in 2025, catch-up contributions for those ages 60 to 63 will be increased to the greater of $10,000 or 50% more than the regular catch-up contribution amount in 2025 (indexed for inflation after 2025).
- Roth catch-up contributions
  - In 2026, for those with incomes exceeding $145,000, catch-up contributions will be designated as Roth contributions.
- Expand Roth contributions
  - Employer contributions can be designated as Roth.

The SECURE 2.0 Act

Key Provisions, continued

- Autoenrollment / auto escalation
  - In 2025, new 401(k) and 403(b) plans must automatically enroll participants when they become eligible; employees may opt out of coverage. All 401(k) and 403(b) plans in effect on the date of enactment are grandfathered.
- Repeal and replacement of the Saver's Credit
  - The "Saver's Match" will be repealed and replaced with a federal matching contribution that must be deposited into a taxpayer's eligible retirement plan. The match is subject to an income-based phase out and becomes effective for tax years beginning after 2026.
- Student loan payments
  - In 2024, student loan payments may be treated as Employee Elective Deferral's for purposes of matching contributions.
- Changes to long-term, part-time employees
  - The Act modifies the measuring period for long-term, part-time employees from three years to two years, beginning in 2025. This provision also extends the rules to 403(b) plans that are subject to ERISA.

The SECURE 2.0 Act

Key Provisions, continued

- Pension linked emergency savings account
  - Beginning in 2024, employers may establish an emergency savings account where employees can save up to $2,500 in a Roth-style account (non-highly compensated employees only). Distributions will be treated like a qualified distribution from a Roth account.
- Withdrawal for certain emergency expenses
  - Beginning in 2024, the Act provides an exception from the 10% tax on certain early distributions that are used for emergency expenses which are unforeseeable or immediate family needs.
- Recovery of retirement plan overpayments
  - Effective immediately, retirement plan fiduciaries have the discretion to recoup overpayments mistakenly made to retirees.

The SECURE 2.0 Act

Key Provisions, continued

- Compliance testing/corrections
  - The Act includes changes to the rules for top-heavy plan testing and expands the IRS Employee Plans Compliance Resolution System to allow more types of errors to be rectified internally through self-correction.
- 403(b) Plans
  - Conforms the current hardship distribution rules for 401(k) plans to 403(b) plans
  - Extends the long-term, part-time employee provision to 403(b) plans subject to ERISA
  - Allows 403(b) plans to invest in collective investment trusts
- Increased mandatory distribution threshold
  - The Act increases the mandatory distribution limit from $5,000 to $7,000, effective in 2024.
- Change in audit threshold
  - For plans with over 100 participants with account balances vs. over 100 eligible participants.

Best Practices for EBP Audits

Best Practices

1. Know plan provisions
2. Avoid unnecessary complexity
3. Automate processes & calculations
4. Create checklists
5. Review SOC reports
6. Reconcile contributions to payroll
7. Ensure timely remittances
8. Review financial reports
9. Document plan oversight
10. Be alert to new risks

1 – Know Plan Provisions

- ❑ Eligibility
- ❑ Definition of compensation
- ❑ Contributions
- ❑ Benefit payments

2 – Avoid Unnecessary Complexity of Plan Provisions

- ❑ Compensation exclusions
- ❑ Employer contributions
- ❑ Vesting rules

3 – Automate Processes and Calculations When Feasible

- ❑ Enrollment
- ❑ Payroll calculations
- ❑ Calculations of contributions
- ❖ Verify and test

4 – Create Checklists for Compliance & Documentation

- ❑ Documents
- ❑ Participant data
- ❑ Distributions

5 – Review SOC Reports from Service Providers

- Payroll
- Plan operations
- Subservice organizations
- Complementary user controls

Excerpt from SOC 1 Report

Ref. #	CUEC	Related CO
01	User entities should have controls in place for timely written notification of requested changes to the plan, its objectives, and its participants to NFS.	CO6, CO11
02	User entities should have controls in place for timely written notification of changes to NFS to individuals who can authorize NFS to perform activities on behalf of user entities.	CO6
03	User entities should have controls in place for timely review of reports, including tax reports and transaction confirmations provided by NFS of account balances and related activity, and written notice should be provided to NFS of discrepancies as compared with the user entity's record.	CO7, CO8, CO9 CO10, CO14

6 – Reconcile Contributions to Payroll

- ❑ Critical in identifying missed contributions
- ❑ Match types of contributions, i.e. pre-tax, after-tax, Roth, catch up

7 – Ensure timely remittances of participant contributions and loan repayments

- “As soon as administratively possible to segregate from general assets”
- No safe harbor for large plans
- Be consistent

8 – Review Financial Reports

- ❑ Contributions
- ❑ Distributions
- ❑ New loans
- ❑ Investment return

9 – Document Plan Oversight & Decisions

- ❑ Meetings with service providers
- ❑ Discretionary contributions
- ❑ Investment selection
- ❑ Service provider and expense review
- $ Review forfeiture accounts

10 – Be Alert to New Risks

- ❑ Cybersecurity
- ❑ Cryptocurrencies
- ❑ SECURE 2.0 Act

Question & and answer session

Audit Process

- Team effort
- Gathering and preparing documentation
  - Participant or personnel records
  - Payroll files
  - Contributions summary and records
  - Loans and distributions
  - Plan documents / amendments
  - Minutes from committee meetings
  - Service agreements with trustees, custodians, third-party administrators, etc.
- Data verification
- Internal control environment

After the Audit

- Addressing audit findings
  - Self-correction
  - Correction involving ERISA counsel (VFCP)
  - Updates to plan documents
  - Improvement to internal controls / processes

- Education and training of relevant personnel

- Maintaining historical records

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