Municipal Employees' Retirement System

SECURE Act 2.0

Given the importance of retirement plans, it is essential that laws and regulations governing them keep up with the evolving challenges workers and employers face. Many are feeling the economic impact of a global pandemic, inflation and fluctuating market conditions, while trying to balance today's financial needs with planning for decades into retirement.

SECURE 2.0 was signed into law at the end of 2022. The law has roughly 90 separate provisions, each with its own effective date, and not all provisions affect MERS plans. The law aims to improve retirement outcomes by increasing access to retirement plans, growing and preserving savings and helping Americans manage financial priorities so they can achieve long-term financial security.

Based on our experience with the original SECURE Act, we anticipate the IRS may release future guidance or technical information to help with the implementation of these changes. The following is a summary of the changes. Please note that, as the plan fiduciary and your partner in retirement, MERS will ensure any required administrative or policy changes related to the plans we administer are implemented as required.

SECURE 2.0 Changes

Change/Overview	Why	Type of MERS Plan(s) Impacted
Required minimum distribution (RMD) ages Increases the required minimum distribution (RMD) age from 72 to 73 for participants who attain age 72 after January 1, 2023, and age 73 before January 1, 2033. Further, there is a subsequent increase to age 75 for any participant who did not attain age 74 prior to January 1, 2024. These increases also apply to surviving spouse distributions. Here is a summary of the provision: • For participants who turned age 72 before 2023, the applicable age is age 72 (or age 70½ if they were born before July 1, 1949) • For participants who will turn age 72 after 2022 and age 73 before 2033, the applicable age now is age 73 • For participants who will turn age 74 after 2032, the applicable age now is age 75 **Effective for RMDs made after 2022 for participants who turn age 72 after 2022** *NOTE: An issue was identified related to new RMD rules for those born in 1959. The IRS is working on clarification.*	Helps participants **preserve retirement savings longer**. RMDs are designed to ensure participants use retirement savings in retirement, reducing the amount of money that could be transferred to beneficiaries.	• 401(a) defined contribution • 401(a) defined benefit • 457(b) • IRA

Change/Overview	Why	Type of MERS Plan(s) Impacted
Reduction in excise tax on RMDs Reduces the penalty for failure to take an RMD from 50% to 25%. Further, if a failure to take an RMD from an IRA is corrected in a timely manner, as defined under SECURE 2.0, the excise tax on the failure is further reduced from 25% to 10%. **Effective for taxable years beginning after 12/29/2022**	Reduces the penalty to participants when failing to take an RMD, thereby helping them **preserve retirement savings longer**	• 401(a) defined contribution • 401(a) defined benefit • 457(b) • IRA
Elimination of the "first day of the month" requirement for elections to defer compensation from governmental 457(b) plans Under current law, participants in a governmental 457(b) plan must request changes to their deferral rate prior to the beginning of the month in which the deferral will be made. This rule does not exist for other defined contribution plans. Now, such elections can be made at any time prior to the date that the compensation being deferred is available. **Effective for taxable years beginning after 12/29/2022**	**Aligns** governmental 457(b) plans with 401(k) and 403(b) plans	• 457(b)
Higher catch-up limit at age 60, 61, 62, and 63 Under current law, participants who have attained age 50 are permitted to make catch-up contributions under a retirement plan in excess of the otherwise applicable limits. The SECURE 2.0 Act increased these limits to the greater of $10,000 or 50 percent more than the regular catch-up amount, beginning in years after December 31, 2024, for participants who have attained ages 60, 61, 62 and 63. The increased amounts will be indexed for inflation after 2025. **Effective for taxable years beginning after 12/31/2024**	Helps participants **increase retirement savings**	• 457(b)

Change/Overview	Why	Type of MERS Plan(s) Impacted
Public safety officer health insurance Previous law provided the opportunity for public safety officers to exclude $3,000 from gross income for a direct payment for health insurance premiums from a governmental retirement plan. With SECURE 2.0, insurance premium payments no longer need to be paid directly from the retirement plan to qualify for the tax exemption. **Effective for distributions after 12/29/2022**	Makes it **easier** for public safety officers to utilize this provision	• 401(a) defined contribution • 401(a) defined benefit • 457(b)
Repayment of qualified birth or adoption distribution SECURE 2.0 includes a provision that allows individuals to receive distributions from their retirement plan in the case of birth or adoption without paying the 10% additional tax. Distributions can be repaid to a retirement plan or IRA and are treated as timely rollovers. SECURE 2.0 now restricts the re-contribution period to three years. **Effective to distributions made after 12/29/2022 and retroactively to the three-year period beginning on the day after the date on which such distribution was received**	**Protects the tax benefit** to participants when they repay the distribution	• 457(b) • IRA
Employer may rely on participant certifying that deemed hardship/ unforeseeable emergency distribution conditions are met Provides that, under certain circumstances, participants are permitted to self-certify that they had an event that constitutes an unforeseeable emergency for purposes of an unforeseeable emergency distribution from the 457(b) plan. Plans are permitted to rely on the participant's written self-certification that: (i) the circumstances for the hardship exist (ii) the amount requested is not in excess of the amount required to satisfy the financial need, and (iii) the participant has no alternative reasonably available means to satisfy such need Reliance on self-certification is not permitted if the plan administrator has actual knowledge that is contrary to the participant's certification. **Effective for plan years beginning after 12/29/2022**	Makes it **easier** for participants to use this provision	• 457(b)

Change/Overview	Why	Type of MERS Plan(s) Impacted
Designated Roth account distribution rules Under current law, required minimum distributions are not required to begin prior to the death of the owner of a Roth IRA. However, pre-death distributions are required in the case of the owner of a Roth designated account in an employer retirement plan (such as the MERS 457(b) Plan). The pre-death distribution requirement for Roth accounts in employer plans is eliminated, effective for taxable years beginning after December 31, 2023. This does not apply to distributions which are required with respect to years beginning before January 1, 2024, but are permitted to be paid on or after such date. **Effective 1/1/2024 for taxable years beginning after 2023, but not applicable to RMDs required for years beginning before 2024**	Allows participants to **preserve retirement account balances**	• 457(b)
Surviving spouse election to be treated as employee Allows a surviving spouse to elect to be treated as the deceased employee for purposes of the required minimum distribution rules. Making such an election would provide the following benefits to the surviving spouse: • RMDs for the surviving spouse would be delayed until the deceased spouse would have reached the age at which RMDs begin; • Once RMDs are necessary (the year the decedent would have reached RMD age, had they lived), the surviving spouse will calculate RMDs using the Uniform Lifetime Table that is used by account owners, rather than the Single Lifetime Table that applies to beneficiaries; and • If the surviving spouse dies before RMDs begin, the surviving spouse's beneficiaries will be treated as though they were the original beneficiaries of the account (which would allow any eligible designated beneficiaries to "stretch" distributions over their life expectancy instead of using the 10-year rule that would otherwise apply). **Effective 1/1/2024 for RMD required for calendar years after 2023**	The spouse may elect to defer RMD to a later date and have RMD calculated under a **potentially more favorable life expectancy table**	• 401(a) defined contribution • 401(a) defined benefit • 457(b) • IRA
Modification of required minimum distribution rules for special needs trusts SECURE 2.0 places limits on the ability of beneficiaries of defined contribution retirement plans and IRAs to receive lifetime distributions after the account owner's death. Special rules apply in the case of certain beneficiaries, such as those with a disability. In the case of a special needs trust established for a beneficiary with a disability, the trust may provide for a charitable organization as the remainder beneficiary. **Effective for calendar years beginning after 12/29/2022**	Helps participants **manage financial priorities** so they can achieve long-term financial security	• 401(a) defined contribution • 457(b) • IRA

Change/Overview	Why	Type of MERS Plan(s) Impacted
Catch-up contributions on Roth basis Under current law, catch-up contributions to a qualified retirement plan can be made on a pre-tax or Roth basis (if permitted by the employer). SECURE 2.0 provides that, for participants with previous year annual compensation of more than $145,000 (indexed), all catch-up contributions to qualified retirement plans must be remitted on a Roth (post-tax) basis, effective for taxable years beginning after December 31, 2023. Although it might appear to impact only participants who made more than $145,000 last year, there is one very important aspect of this that could affect every participant. If the plan has any participant of any age who made more than $145,000, and the plan does not have a designated Roth account available, then the catch-up provision does not apply to the employer – that is, no participant of that employer will be allowed to make a catchup contribution unless they are given the choice to continue catch-up contributions as a pre-tax or Roth contribution. **Effective for taxable years beginning after 12/31/2025 (on Aug. 25 2023 the IRS issued a two-year delay from the original effective date of 12/31/2023).**	**Allows more contributions** to be made on a Roth (post-tax) basis	• 457(b)
Optional treatment of employer matching or non-elective contributions as Roth contributions Allows participants in account-based plans, including governmental 457(b) plans, to designate employer-matching contributions as Roth contributions, and plans to deposit matching and/or nonelective contributions to participants' designated Roth accounts as Roth contributions. Such amounts will be included in the participants' income in the year of contribution, and must be non-forfeitable (i.e., not subject to a vesting schedule). **Effective for contributions made after 12/29/2022**	Creates plan design incentive for employers and **allows more contributions** to be made on a Roth (post-tax) basis	• 457(b)
Treatment of student loan payments as elective deferrals for purposes of matching contributions Allows participants to receive matching contributions by reason of repaying their student loans. It permits an employer to make matching contributions with respect to "qualified student loan payments." A qualified student loan payment is broadly defined as any indebtedness incurred by the participant solely to pay qualified higher education expenses of the participant. The employer matching contributions may be made pre-tax or on a Roth basis. **Effective for plan years beginning after 2023**	Creates plan design incentive for employers and helps participants **manage financial priorities** so they can achieve long-term financial security	• 401(a) defined contribution • 457(b)

Change/Overview	Why	Type of MERS Plan(s) Impacted
Withdrawals for certain emergency expenses Generally, an additional 10% tax penalty applies to early distributions from tax-deferred retirement accounts, unless an exception applies. A new exception is established for certain distributions used for emergency expenses, which are unforeseeable or immediate financial needs relating to personal or family emergency expenses. Participants may provide written self-certification that they meet this standard. Only one distribution is permissible per year of up to $1,000 (or their vested balance, if less). Restrictions apply to subsequent distributions. All or a portion of the distribution may be repaid within three years, under the same rules that apply to qualified birth or adoption distributions. This distribution is not eligible for rollover, nor is it subject to the mandatory 20% withholding requirements. **Effective for distributions as of 1/1/2024**	Helps participants **manage financial priorities** so they can achieve long-term financial security	• 401(a) defined contribution (available to those participants with a DC plan that are otherwise eligible for a distribution) • 457(b) • IRA
Penalty-free withdrawal from retirement plans for individual case of domestic abuse Permits a plan to provide that victims of domestic abuse can withdraw up to the lesser of $10,000 (indexed for inflation) or 50% of their vested balance without incurring a 10% early distribution penalty. To qualify, the distribution must be made within the one-year period after an participant has become a victim of such abuse. All or a portion of the distribution may be repaid within three years, under the same rules that apply to qualified birth or adoption distributions. Participants may provide written self-certification that they meet this standard. For qualified defined contribution pension plans like the MERS Defined Contribution Plan, the distribution cannot be an in-service distribution basis on its own – the participant must be eligible for a distribution on another existing basis. The distribution is not eligible for rollover distribution; and it is not subject to the mandatory 20% withholding requirements. **Effective for distributions as of 1/1/2024**	Helps participants **manage financial priorities** so they can achieve long-term financial security	• 401(a) defined contribution (available to those participants with a DC plan that are otherwise eligible for distribution) • 457(b) • IRA

Change/Overview	Why	Type of MERS Plan(s) Impacted
Exception to 10% early distribution penalty and expanded access to plan loans for plan participants in disaster areas Allows up to $22,000 to be distributed from employer retirement plans or IRAs for affected participants. Such distributions, called "Qualified Disaster Recovery Distributions," are not subject to the 10% early distribution penalty, and the participant may include the distribution in their gross income over three years. The participant may repay this amount in the same manner applicable to qualified birth or adoption distributions. To qualify for such distributions, an participant must have their principal place of abode within a federally declared disaster area, and they must generally take their distribution within 180 days of the disaster. These distributions are not eligible rollover distributions and are exempt from the 20% mandatory withholding. Additionally, amounts distributed prior to the disaster to purchase a home can be re-contributed, and an employer is permitted to provide for a larger amount to be borrowed from a plan by affected participants and for additional time for repayment of plan loans owed by affected participants. Loans of up to 100% of a participant's vested balance (which are normally limited to the greater of $10,000 or 50% of the participant's vested balance) are permitted, up to a maximum of $100,000 (normally limited to $50,000). In addition, repayment dates for certain payments may be delayed for one year. These loans must be taken within 180 days following the disaster to qualify for these terms. **Effective for disasters occurring on or after 1/26/2021**	Provides participants with **access to retirement funds** for disaster recovery use without incurring a 10% tax penalty	• 401(a) defined contribution • 457(b) • IRA

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<tr><th>Change/Overview</th><th>Why</th><th>Type of MERS Plan(s) Impacted</th></tr>
<tr><td>Distributions for qualified long-term care insurance

Allows qualified plans and governmental 457(b) plans to provide an annual “Qualified Long-Term Care Distribution” of up to the lesser of the amount of the premium, 10% of the present value of the non-forfeitable accrued benefit, or $2,500 (adjusted for inflation) to pay for long-term care insurance for the participant or (if the participant and spouse file a joint tax return) the participant’s spouse. The distribution will require the following:
The participant must have either paid, or have been assessed, long-term care insurance premiums equal to or greater than their distribution in the year the distribution is made, and
They must provide the plan with a “Long-Term Care Premium Statement” containing details, such as the name and Tax ID number of the insurance company, identification of the account owner as the owner of the long-term care insurance, a statement that the coverage is certified long-term care insurance, the premiums owed for the calendar year, and the name of the insured individual and their relationship to the retirement account owner
A qualified long-term care distribution is exempt from the 10% early distribution penalty, and it is not an eligible rollover distribution – it may not be rolled over and it is not subject to 20% mandatory withholding.

Effective after 12/29/2025</td><td>Helps participants manage financial priorities so they can achieve long-term financial security</td><td>401(a) defined contribution
457(b)
IRA</td></tr>
<tr><td>Saver’s Match

Current law provides for a nonrefundable credit (the “Saver’s Credit”) for certain participants who make contributions to individual retirement accounts, employer retirement plans (including 457(b) plans and qualified plans), and other vehicles. This will be repealed and replaced with respect to IRA and retirement plan contributions, changing it from a credit paid in cash as part of a tax refund into a federal matching contribution that must be deposited into a taxpayer’s IRA or retirement plan (“Saver’s Match”). The match is 50% of IRA or retirement plan contributions up to $2,000 per participant. The match phases out between $41,000 and $71,000 in the case of taxpayers filing a joint return ($20,500 to $35,500 for single taxpayers and married filing separate; $30,750 to $53,250 for head of household filers).

Effective for taxable years beginning after 12/31/2026</td><td>Ensures all participants, regardless of income, benefit from the Saver’s Match and requires the match to be invested for retirement</td><td>457(b)
IRA</td></tr>
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Change/Overview	Why	Type of MERS Plan(s) Impacted
New Roth IRA rollover option for certain distributions from long-term qualified tuition programs Allows for tax and penalty-free direct trustee-to-trustee rollovers from 529 accounts to Roth IRAs, under certain conditions. Beneficiaries of 529 college savings accounts would be permitted to rollover assets from any 529 account in their name to their Roth IRA. These rollovers are subject to Roth IRA annual contribution limits, and the 529 account must have been open for more than 15 years. The rollover is subject to the requirement that the designated beneficiary/Roth IRA owner have includible compensation at least equal to the amount of the rollover. However, although participants are generally prohibited from making regular Roth IRA contributions once their modified adjusted gross income (MAGI) exceeds an applicable threshold, transfers of funds from 529 plans to Roth IRAs will not be subject to the same income limitations. Permitted rollovers would be limited to (1) the aggregate amount of contributions to the account (and earnings thereon) before the five-year period ending on the date of rollover, and (2) a lifetime limit of $35,000. **Effective with respect to distributions after 12/31/2023**	Allows unused assets in a 529 plan to be **used for retirement savings**	• Roth IRA
Exception to penalty on early distribution for participants with a terminal illness Creates a new 10% early distribution penalty exception for participants who are terminally ill. For purposes of this exception, the participant is deemed to be "terminally ill" if they have "been certified by a physician as having an illness or physical condition which can reasonably be expected to result in death in 84 months or less." Except for distributions from defined benefit plans, such distributions may be repaid within three years in the same manner as qualified birth or adoption distributions. **Effective for distributions as of 1/1/2023**	Provides **terminally ill** participants with access to retirement funds without incurring a 10% tax penalty	• 401(a) defined contribution (available to those participants with a DC plan that are otherwise eligible for distribution) • IRA
Exclusion of certain disability-related first responder payments Under current law, a retiree's duty-disability benefit that is excluded from income under the Internal Revenue Code Section 104(a) loses its tax exemption at normal retirement age if, under the plan, the disability benefit converts to a normal retirement benefit. Under SECURE 2.0, for certain first responders, the service-connected disability benefit retains its tax exemption even if the benefit converts to a normal retirement benefit. Qualifying first responders are defined as law enforcement officers, firefighters, paramedics and emergency medical technicians who receive service-connected disability and retirement pensions. **Effective for plan years beginning after 2026**	Provides income tax relief for certain **disabled first responders**	• 401(a) defined contribution • 401(a) defined benefit • 457(b)