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Impacts of SECURE 2.0 on MERS Retirement Plans

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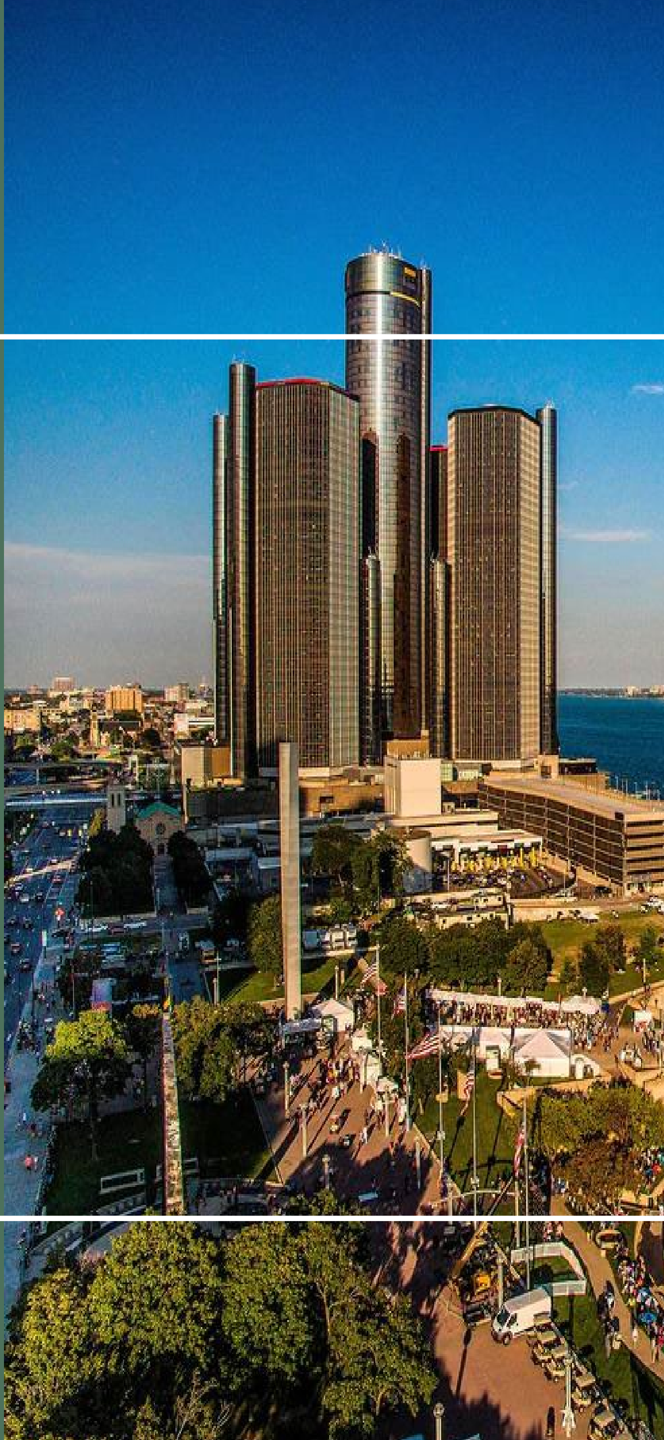
September 2023



Agenda

- SECURE 2.0 Resources and Background Information
- Required Plan Amendments
- Optional Plan Design Enhancements
- Changes to Tax Rules for Participants
- SECURE 3.0 – What Might the Future Hold?

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MERS SECURE 2.0 Resources

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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

+ Required minimum distribution (RMD) ages
+ Reduction in excise tax on RMDs
+ Elimination of the "first day of the month" requirement for elections to defer compensation from governmental 457(b) plans

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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 individuals 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 individual 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 employees who turned age 72 before 2023, the applicable age is age 72 (or age 70½ if they were born before July 1, 1949) • For employees who will turn age 72 after 2022 and age 73 before 2033, the applicable age now is age 73 • For employees 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 individuals 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

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What is SECURE 2.0?

2023 Consolidated Appropriations Act signed into law on December 29, 2022

Contains more than 90 provisions

- Some were effective immediately
- Some go into effect later
- Some don't apply to MERS plans

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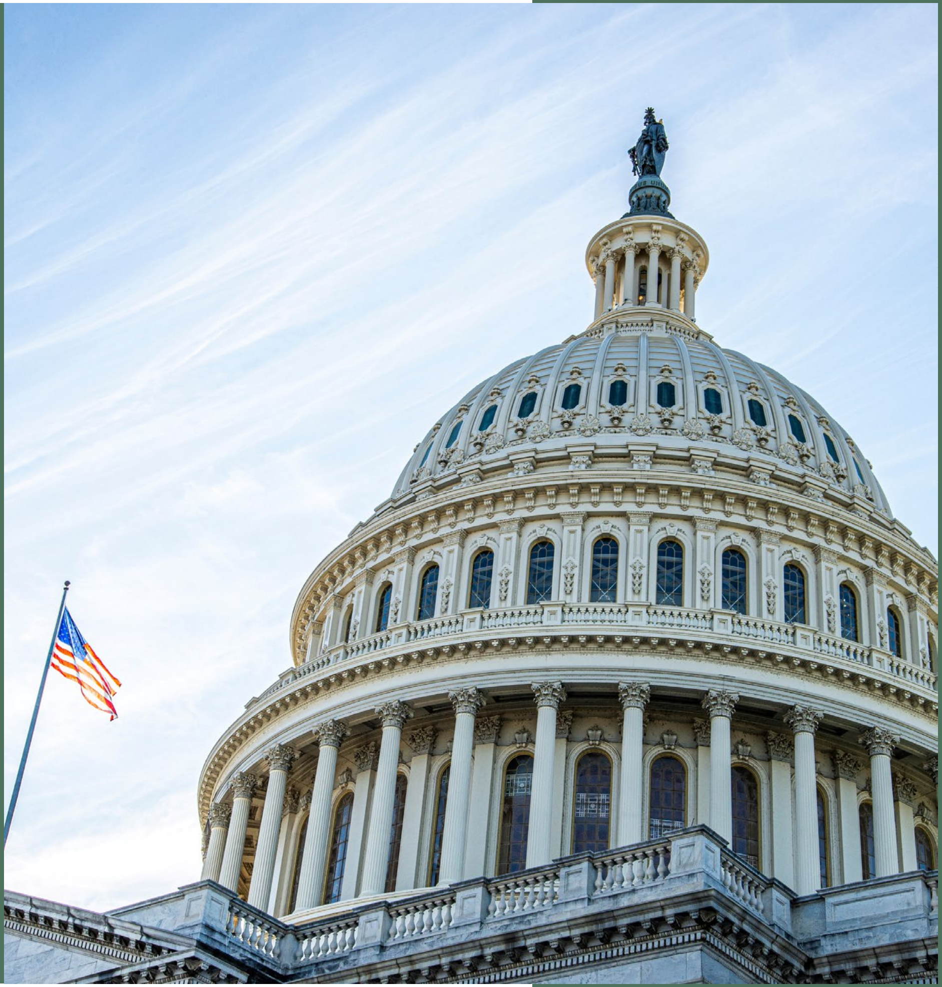
Required Plan Amendments

What do you need to know?

What will MERS take care of on your behalf?



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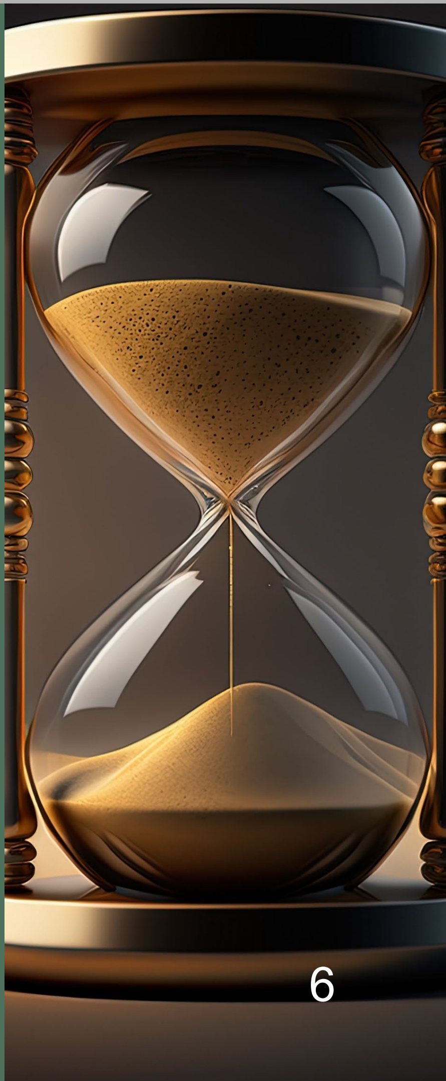
Higher Ages for Required Minimum Distributions

EFFECTIVE IMMEDIATELY

- The Act increased age for RMD's with the goal to help participants preserve savings longer
- Applicable RMD ages are determined as follows:
  - Age 70½ – if you were born before July 1, 1949
  - Age 72 – if you turned age 72 before 2023
  - Age 73 – if you turned (or will turn) age 73 before 2033
  - Age 75 – if you will turn age 74 after 2032
- The penalty tax for missing an RMD has been reduced from 50% to 25%
- *Applicable to MERS 401(a) Defined Benefit and Defined Contribution, pre-tax 457(b) and Traditional IRA's*



Changes to 457(b) Roth Plans

EFFECTIVE 2024/2026*

- RMDs eliminated for employer-sponsored Roth plans
  - While RMD’s have never been required for Roth IRA’s, pre-death distributions are currently required for Roth designated accounts in an employer retirement plan, such as the MERS 457(b) Program
  - These required pre-death distributions will be eliminated
- Catch-up contributions must be Roth for those earning more than $145k
  - Currently, catch-up contributions can be made on a pre-tax or Roth basis (if permitted by the plan sponsor)
  - If ANY employees in a plan earn more than $145k, the plan must permit Roth contributions, or it will no longer be able to allow catch-up contributions for ANY employees
- *Both changes applicable to the MERS 457(b) Plan*

**This is a change from the original effective date of 2024*

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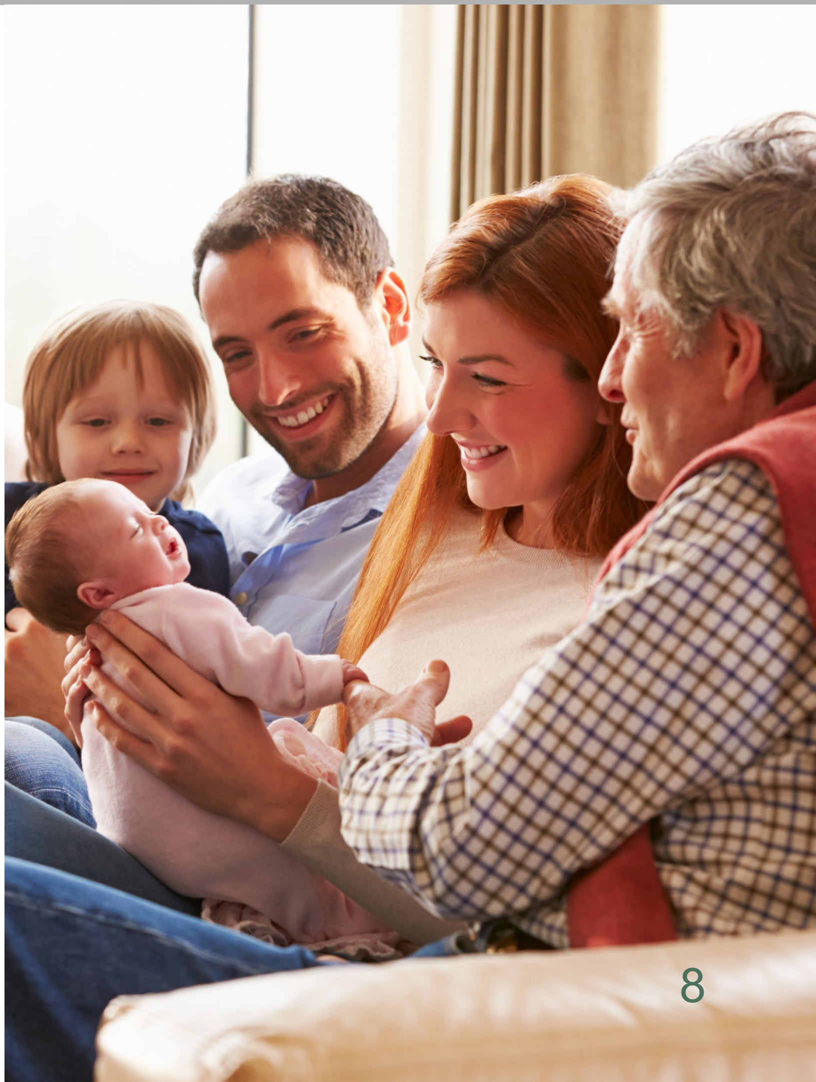
Repayment of Qualified Birth or Adoption Distributions

EFFECTIVE IMMEDIATELY & RETROACTIVELY

- Individuals may receive distributions from their retirement plan in the case of birth or adoption without paying the 10% additional tax
- The distributions can be repaid to a retirement plan or IRA and are treated as timely rollovers, with the re-contribution period limited to 3 years
- Effective both going forward and retroactively to the 3-year period beginning on the day after the date on which such distribution was received
- Helps participants manage financial priorities to achieve long-term financial security
- *Applicable to MERS 457(b) and IRA Plans*



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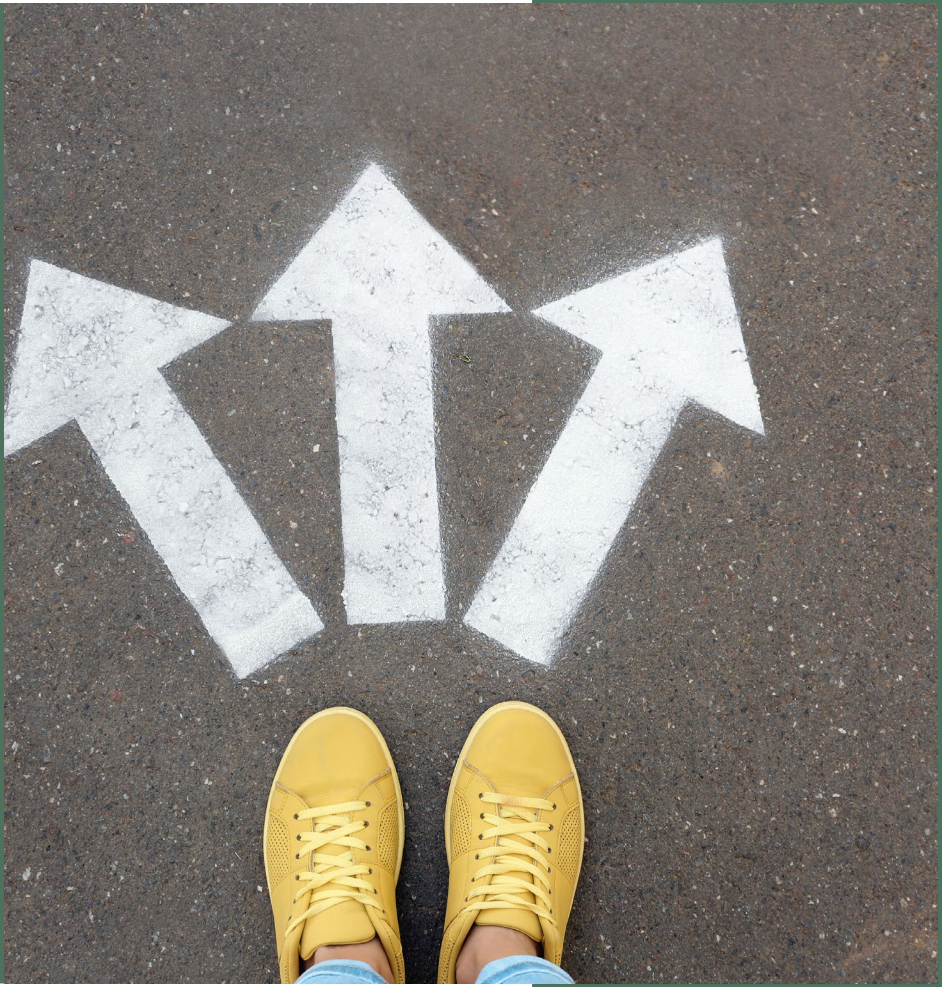
Optional Plan Design Enhancements

Considerations to streamline administration and improve participant outcomes



457(b) Plan Contribution Rate Changes Can be Made at Any Time

OPTIONAL – EFFECTIVE IMMEDIATELY

- Eliminates the “first day of the month” rule that applied 457(b) plans only

- This changes the rules for 457(b) plans only
- Changes to employee contributions made to a 401(a) defined contribution plan are still not permitted

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Self-Certification Allowed for Unforeseeable Emergency Distributions

OPTIONAL - BEGINNING IMMEDIATELY

- Plans are permitted to rely on the participant's written self-certification that:
  1) the circumstances were unforeseeable, and it is a financial emergency
  2) the amount requested does not exceed the financial need; and
  3) the participant has no reasonable alternative
- Self-certification is *not* permitted if the plan administrator has actual knowledge that is contrary to the participant's certification
- *Applicable to MERS 457(b) Plan*

Student Loan Payments May Qualify for Employer Matching Contributions

OPTIONAL - BEGINNING 2024

- Employers may elect to consider qualified student loan payments an "elective deferral" for purposes of matching employer contributions
- Matching contributions may be pre-tax or Roth
- Helps participant manage financial priorities so they can achieve long-term financial security
- *Applicable to MERS 401(a) Defined Contribution and 457(b) Plans*

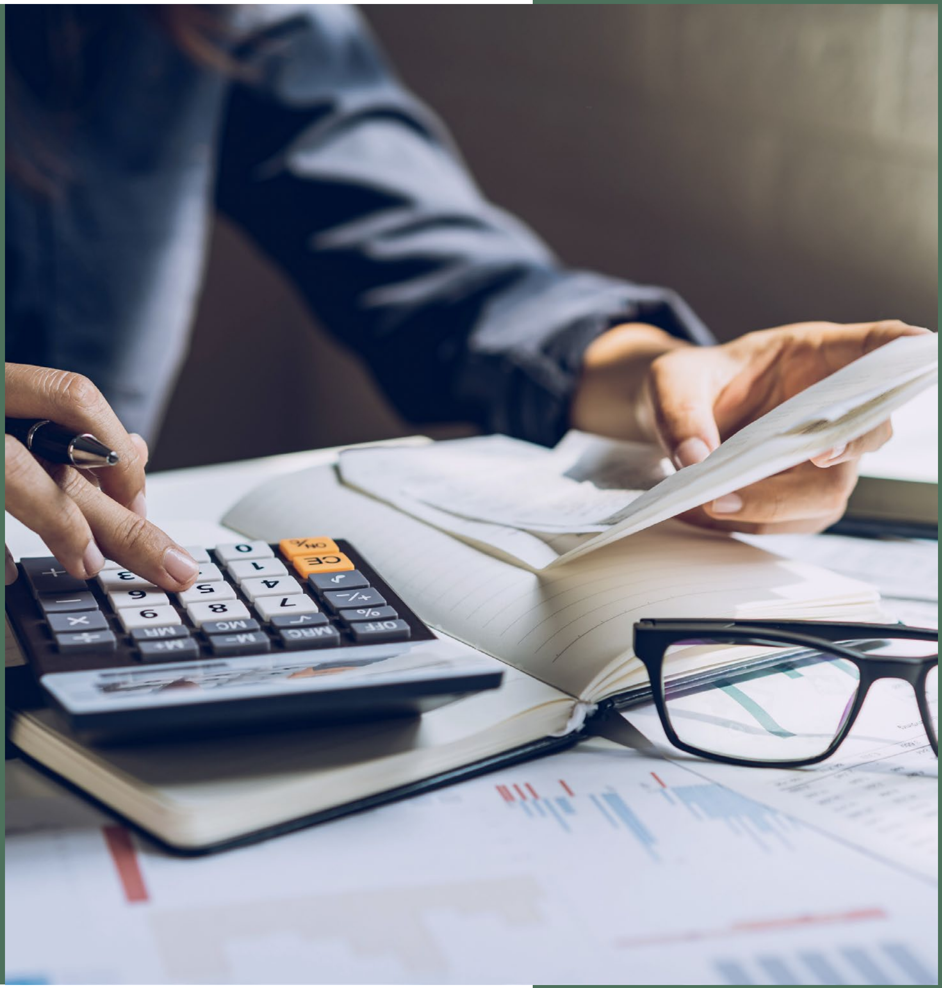
Higher Catch-up Limits

OPTIONAL - BEGINNING 2025

- Currently, employees aged 50+ are permitted to make catch-up contributions of $7,500 (2023 limit)
- SECURE 2.0 creates an additional “tier” of catch-up contributions
- Increased catch-up limit for those age 60-63 equal to the greater of:
  - $10,000 OR
  - 150% of the regular catch-up amount
- Help participants preserve savings longer
- *Applicable to MERS 457(b) Plan*

Changes to Tax Rules for Participants

Tax relief that impacts your employees, retirees and co-workers



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Rollovers from 529 Plan to Roth IRA Permitted

EFFECTIVE 2024

- Tax and penalty-free, direct trustee-to-trustee rollovers from 529 educational savings accounts to Roth IRAs will be permitted
- Certain conditions apply
  - Subject to Roth IRA annual contribution limits
  - 529 account must have been open for more than 15 years
  - 529 designated beneficiary/Roth IRA owner must have includible compensation at least equal to the amount of the rollover
- Owners of a 529 account can change the designated beneficiary to themselves and transfer the account value to their own Roth IRAs
- *Applicable to MERS Roth IRA Plan*

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Exclusion for Health and Long-Term Care Insurance

EFFECTIVE IMMEDIATELY

- Current law allows public safety officers to exclude up to $3,000 from their taxable income for health and long-term care insurance premiums
- The requirement for those premiums to be paid directly by the retirement plan has been repealed, easing the burden on plan administrators which makes it more likely plans will adopt it, benefiting retirees
- *Applicable to MERS 401(a) Defined Benefit, Defined Contribution and 457(b) Plans*

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Tax Relief for Emergency and Other Related Distributions

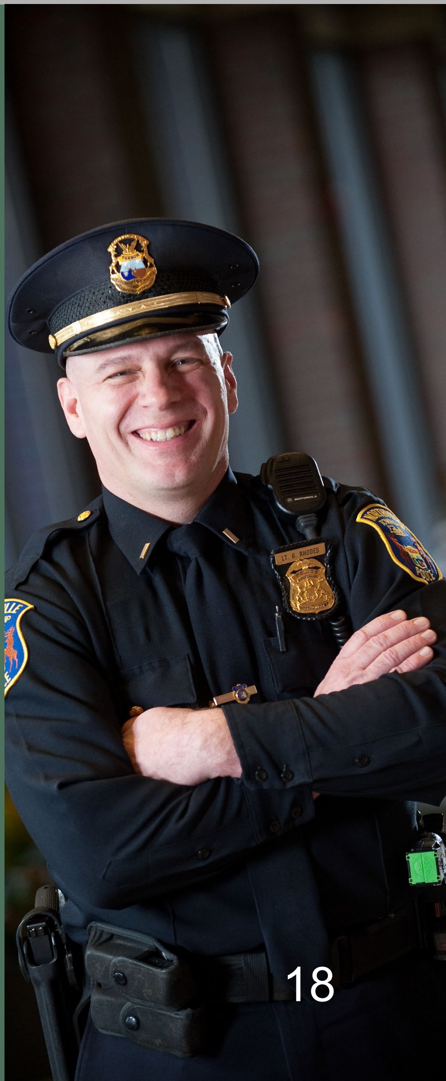
VARIOUS EFFECTIVE DATES

- The 10% penalty tax has been removed for emergency and other distributions, including:
  - Terminal illness
  - Emergency expenses (up to $1,000 per year)
  - Domestic abuse (greater of $10,000 or 50% of vested balance)
- Additional flexibility for loans in federally declared disaster areas
- *Applicable to MERS 401(a) Defined Contribution, 457(b)and IRA Plans*

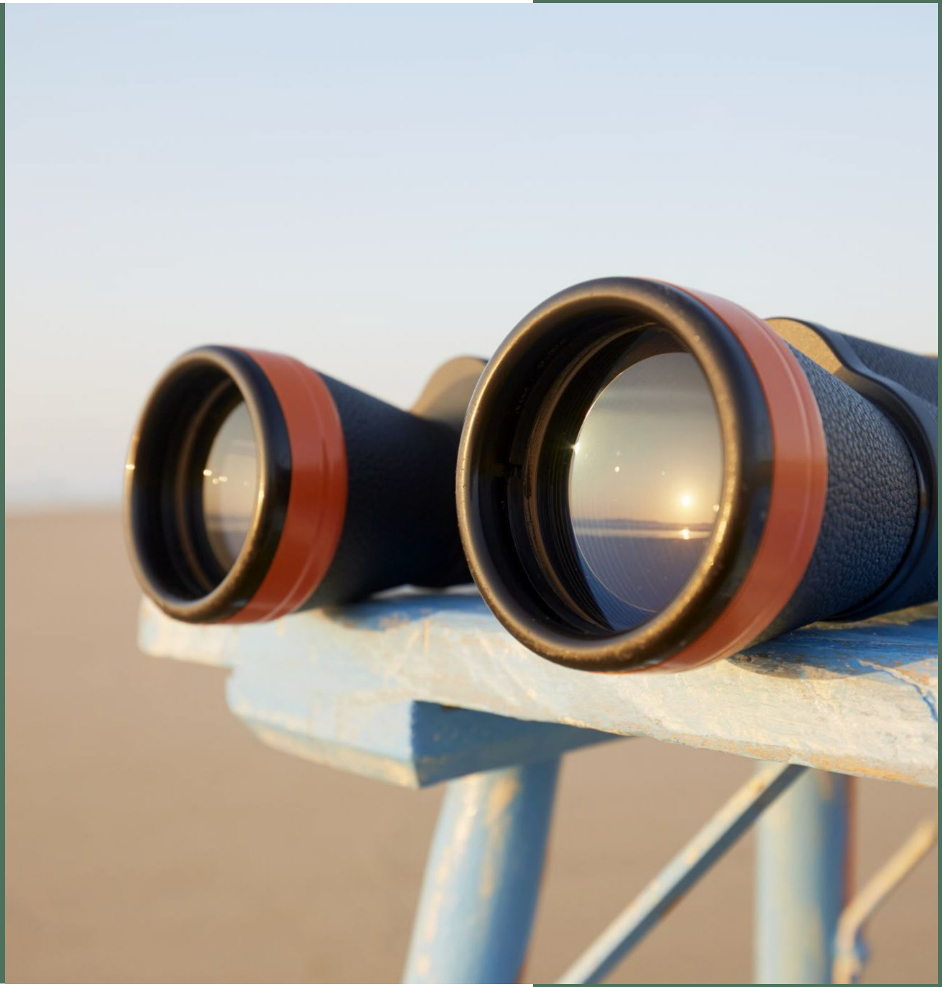
Exclusion of Disability First-Responder Payments

EFFECTIVE 2027

- Provides significant income tax relief for disabled first responders
- Qualifying first responders are defined as law enforcement officers, firefighters, paramedics and emergency medical technicians (EMTs) who receive service-connected disability and retirement pensions
- *Applicable to MERS 401(a) Defined Benefit, Defined Contribution and 457(b) Plans*



Predicting the Future



Will SECURE 2.0 do enough to improve retirement outcomes?

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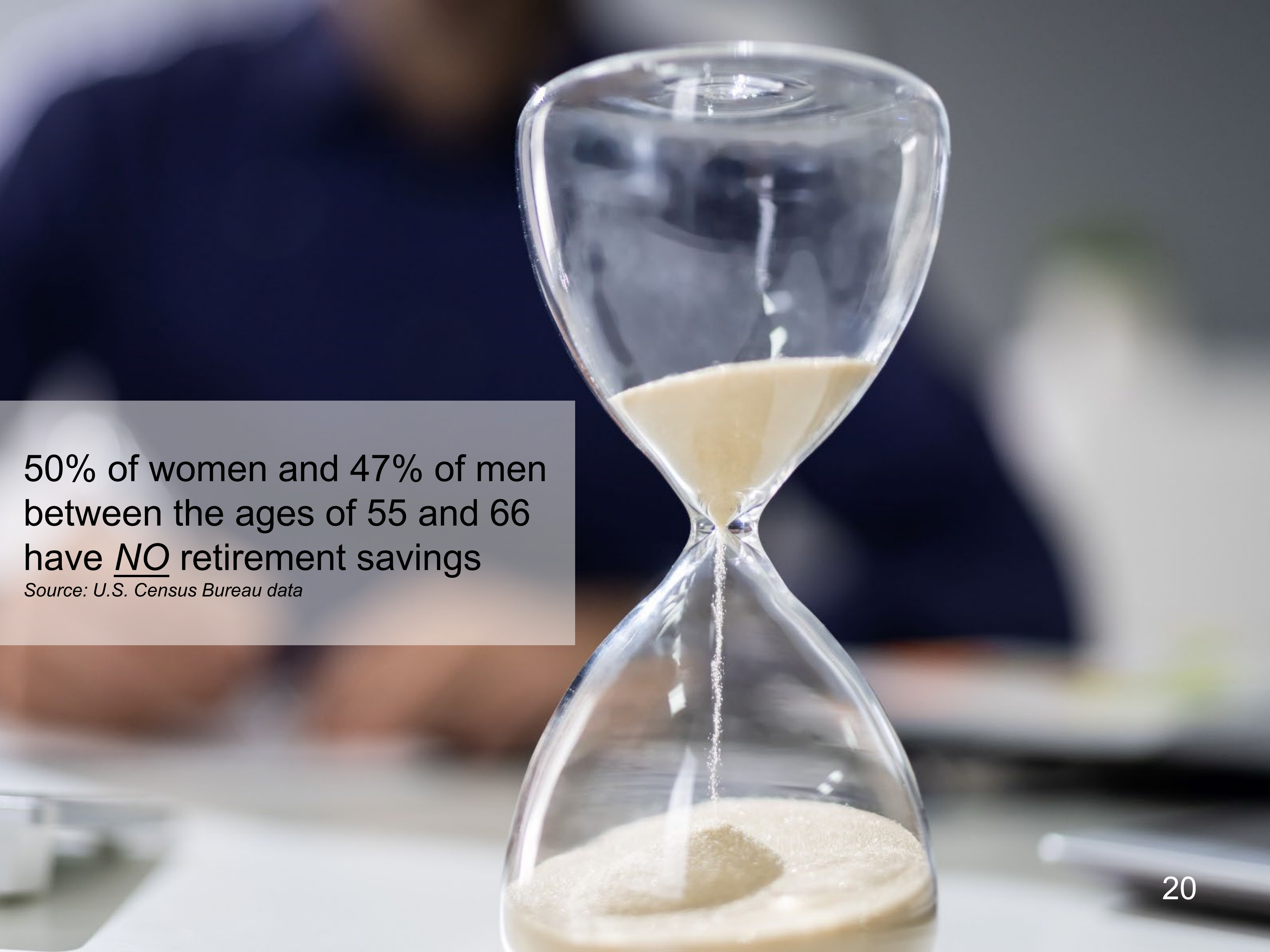

50% of women and 47% of men between the ages of 55 and 66 have *NO* retirement savings

Source: U.S. Census Bureau data

Will There Be a SECURE 3.0?

SECURE Act and SECURE 2.0 created new provisions to help Americans boost their nest eggs, they also left some ideas on the cutting-room floor

A SECURE 3.0 bill could be considered in the 118th Congress, although prospects for a bill as comprehensive as SECURE 2.0 are hard to predict

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Issues Policymakers May Consider

Expand and enhance auto-enrollment

Catch-up contributions for parents and caregivers

Fewer paper statements and remote signatures

Improved access to lifetime income options

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