Charting

MVP PLAN ADMINISTRATORS

SECURE 2.0

Section 304
Involuntary Distributions

Provision(s)	Section 304 - Updating dollar limit for mandatory distributions
Effective	Effective for distributions made after December 31, 2023
Mandatory	No, optional provision subject to the plan sponsor's discretion
Summary	In 2001, the Economic Growth Tax Relief Reconciliation Act (EGTRRA) allowed qualified retirement plans to make automatic distributions of terminated employees without their consent. Balances of less than $1,000 may be paid directly to terminated participants. Balances between $1,000 and $5,000 may be automatically rolled over into an IRA established on behalf of the participant. SECURE 2.0 increased the "mandatory" distribution limit from $5,000 to $7,000, opening the door to clearing out more terminated participant accounts from the plan.
Things to Consider	The term "mandatory" is somewhat misleading. Plan sponsors are not required to adopt involuntary distribution provisions. Nor are they bound to the initial $5,000 limit. Some plans do not contain a mandatory distribution provision. Others have adopted a lower threshold. Adopting the higher $7,000 limit is optional. Employers may decide if they want to implement this change. Implementation will require a plan amendment. Participant counts determine whether a plan is considered a large plan filer of Form 5500. The participant count includes terminated participants with account balances that remain in the plan. Large plans require audit by an independent accounting firm. These audits are typically quite costly. Missing participants may also present a problem for plan sponsors. Terminated participants with small account balances tend to be younger employees with shorter service. Increasing the cash-out limit would enable plan sponsors to remove these balances from the plan long before retirement, reducing the chance that they become problematic missing participants down the road.
MVP's Standpoint	Removing terminated participant balances from the plan may reduce overall plan costs. Involuntary distributions may only be processed after providing terminated participants with required disclosures, providing instructions and adequate time to elect distributions on their own. If you wish to utilize the increased limits presented by SECURE 2.0, be sure to communicate with all of your service providers to ensure they are fully prepared to implement the increased limits before amending your plan. MVP will automatically apply the increased $7,000 limit for any plans on our document that currently utilize the $5,000 limit. The plan amendments to incorporate this change are required to be in place by the end of 2025. If you do not wish to utilize the increased limits presented by SECURE 2.0, please let us know.

At MVP Plan Administrators, we are here to assist you every step of the way. Together, we can work toward a more secure retirement future for all employees. Let us know how we can help you!

Please visit us at www.mvp401k.com for educational information on Secure 2.0 and more! Remember to follow us on Facebook and LinkedIn!