An update on how we're handling SECURE 2.0

John Hancock is continuing to evaluate and implement SECURE 2.0's provisions and developing action steps to meet retirement plan requirements and deadlines.

We'd like to update you on a number of the provisions that we're currently or have already implemented.

If you'd like to discuss your options, reach out to your John Hancock representative.

Action required for 1/1/2025

To be worked on during 2025

Updates on other provisions

FOR PLAN SPONSOR USE ONLY. NOT FOR USE WITH PLAN PARTICIPANTS.

Section 101

Expanding automatic enrollment

The provision

- Automatic enrollment becomes a requirement for new 401(k) and 403(b) plans that are established on or after December 29, 2022 (with certain exceptions)
- Such feature must be in the form of an eligible automatic enrollment arrangement (EACA)
- Under the EACA, participants must be automatically enrolled at an initial rate of at least 3% (but not more than 10%) and increased each year by 1% to at least 10% (but not more than 15%)
- Such contributions must be invested in a qualified default investment alternative (QDIA)
- Participants may elect to opt out of the EACA and/or request a refund of contributions that were made under the EACA subject to the 90-day withdrawal rule

John Hancock preparation

- Adding new field called "Provision 101" that can be used to flag affected plans
- Adding new field to capture ACA/EACA/QACA
- Adding field for QDIA
- All fields will be able to be pulled into existing book of business reports for TPAs
- While using John Hancock auto-enrollment and auto-increase services are optional, we'll be enhancing our services to make them easier and more flexible to use
- Will be holding TPA webcasts aimed at how we'll support automatic enrollment, automatic increase, and description of our services

Next steps

- We ask that TPAs review the plan information on the plan sponsor website to ensure the information is updated for affected plans
- When the new fields are available, it's recommended to update them for affected plans so that bulk of business reports accurately reflect their status under Provision 101. TPAs can update the new fields on the Send Service tab of the plan sponsor website
- Our automatic enrollment service can't accommodate all the plan design elements. If you'd like to use our service, refer to our brochure to see what's supported

Please note that Secure 2.0 Act provision 101, the automatic enrollment and contribution provision, is not applicable for plans with less than 10 participants.

Section 109

Higher catch-up limit to apply at ages 60, 61, 62, and 63

Under current law, employees who've reached age 50 are permitted to make catch-up contributions under a retirement plan beyond the otherwise applicable limits. The limit on catch-up contributions for 2025 is $7,500. Section 109 increases these limits to $11,250 for 2025 for individuals who will reach age 60, 61, 62, or 63 in 2025. Section 109 is effective for taxable years beginning after December 31, 2024.

John Hancock preparation

Our tools and systems have been updated to accept the new limit for participants who've reached ages 60–63 when their plan allows catch-up contributions. We aim to be ready for January 1, 2025.

The goal is to provide the new limit when applicable for any plan that allows catch-up contributions.

Next steps

If your plan offers catch-up contributions, speak with your payroll provider to ensure they can support the increased limits.
Also, coordinate with your TPA to make any changes to your plan document and updates to other systems.

Section 603

Catch-up contributions must be Roth for certain higher-paid employees

This provision requires that catch-up contributions under an employer retirement plan, other than a SIMPLE IRA or simplified employee pension (SEP) plan, be made on a Roth basis for participants who had wages that exceeded $145,000 in the prior calendar year (indexed for inflation). Any other participant must be permitted (but not required) to elect to have catch-up contributions made on a Roth basis. Section 603 was intended to be effective for taxable years beginning after December 31, 2023.

On August 25, 2023, the IRS announced a welcome two-year administrative transition period (until January 1, 2026) for sponsors to implement this provision with Notice 2023-62.

Although this delay is effective for the 2024 and 2025 plan years and Notice 2023-62 states that the IRS expects to announce further guidance on this provision, plan sponsors that don't currently allow for a Roth 401(k) deferral provision may want to consider adding a Roth provision prior to 2026 to ensure appropriate timing for systems implementation, communication with participants, and to amend the plan.

Although plan sponsors may remove the catch-up contribution feature from their plan prior to 2026, this would be a less desirable approach, as it would negatively affect participants and is contrary to the spirit of SECURE 2.0.

John Hancock preparation

We've been reaching out to TPAs with a list of their plans that currently don't allow for Roth but do allow for catch-up contributions or that have left catch up as unspecified on the plan information form. We've also added reporting, available on the plan sponsor and TPA websites, allowing users to see how much participants have been contributing year to date for both pretax and Roth contributions.

Next steps

We request that TPAs work with their plan sponsors to add Roth or remove catch up prior to 2026.

Section 107

Increase in age for RMDs from age 72 to age 73

Both the SECURE Act of 2019 (SECURE Act) and SECURE 2.0 increased the required minimum distribution (RMD) age for certain participants as shown below:

RMD age	
70½	If born before 7/1/49
72	If born on or after 7/1/49 and on or before 12/31/50
73	If born on or after 1/1/51 and on or before 12/31/59
75	If born in 1960 or later

As all qualified plans are required to reflect the increased RMD ages, plan sponsors don't need to make any decisions regarding this provision.

John Hancock preparation

Our recordkeeping systems, websites, and distribution forms have been updated to reflect the new 73 RMD age (they were previously updated to reflect the RMD age of 72). When the RMD age increases to 75, which will take effect in 2035, we'll make that update as well.

Section 125

Long-term, part-time employees

As of January 1, 2024, 401(k) plans must allow long-term, part-time (LTPT) employees to make salary deferrals.

What are LTPT employees?

The first SECURE Act added LTPT as a new classification of employees. These are generally part-time employees (which also include temporary and seasonal employees) who don't meet the plan's regular eligibility requirements but complete three consecutive years of service in which at least 500 hours are worked and are age 21 before the end of such period. Twelve-month periods that begin prior to January 1, 2021, are disregarded for this purpose, which is why LTPT employee coverage generally begins on January 1, 2024.

SECURE 2.0 modified the LTPT employee rules for plan years beginning after December 31, 2024 (so, starting January 1, 2025, for calendar year plans), by replacing three consecutive years with two consecutive years and expanding the rule to also apply to ERISA-covered 403(b) plans. For 403(b) plans, 12-month periods that begin prior to January 1, 2023, are disregarded from the rule.

LTPT employees must be allowed to make salary deferrals. The plan isn't required to, but may, give them employer contributions. LTPT employees and former LTPT employees accrue a year of vesting service if they work at least 500 hours (versus 1,000 hours), excluding plan years that begin before January 1, 2021 (or January 1, 2023, for 403(b) plans). Also, the employer may elect to exclude them from the plan's nondiscrimination testing or receiving top-heavy minimum contributions.

John Hancock preparation

The system and plan sponsor website have been updated to comply with the LTPT employee rules.

Next steps

Plan sponsors may want to consider amending their plan to avoid the complicated LTPT employee rules. For example, if the plan's eligibility service requirement prevents a part-time employee from entering the plan, the plan sponsor may consider reducing such service requirement, at least for salary deferral purposes, by either eliminating any hours requirement, or require no more than 500 hours for a year of service. If the plan sponsor is concerned about additional employer contribution costs, the plan may impose a different service requirement (no more than a year of service in which 1,000 hours are worked) to receive employer contributions.

Contact your John Hancock representative if your client would like to make any plan design changes or if you have any questions on determining eligibility for part-time employees or the impact of this new rule.

Section 304

Increase in cash-out limit from $5,000 to $7,000

SECURE 2.0 increased the cash-out limit from $5,000 to $7,000, effective for distributions made on or after January 1, 2024.

John Hancock preparation

Our recordkeeping system will allow mandatory distributions to now have a maximum amount of $7,000.

Next steps

If a plan wants to increase the cash-out limit from $5,000 to $7,000, the plan would need to be amended by the deadline applicable to SECURE 2.0 amendments.

Section 311

Repayment of qualified birth or adoption distribution

The SECURE Act introduced the qualified birth or adoption distribution (QBAD), which allows plan sponsors to provide participants with additional access to amounts in their retirement plan accounts within 12 months after either the birth of a child or the date of finalization of adoption of an eligible adopted child. The QBAD isn't subject to the 10% early distribution penalty, can be requested using self-certification, and may be recontributed to the plan or an IRA as a rollover.

The SECURE Act and subsequent guidance didn't specify the timeframe during which the amounts could be recontributed to the plan or an IRA. Section 311 of SECURE 2.0 amended the original QBAD provision to restrict the repayment period to three years beginning the day after the date of the QBAD. In addition, it clarified that the repayment period for QBADs made prior to SECURE 2.0 ends on December 31, 2025. This three-year repayment period aligns with other tax rules so that participants who repay a QBAD can amend their tax return to obtain a refund.

John Hancock preparation

We currently support this optional provision from the SECURE Act. Given the clarification provided by SECURE 2.0, the QBAD form and the QBAD repayment form have been updated with information and instructions about the new requirement that QBADs must be repaid within three years.

In addition, the "Other withdrawal and associated repayments" report available on the plan sponsor and TPA websites will be adjusted to display 36 months of data to ensure John Hancock is providing enhanced reporting to plan sponsors and TPAs to manage the new requirement to restrict the recontribution period to three years for QBADs.

Next steps

If a plan currently offers QBADs, you want to be aware of the new repayment requirements and any changes to the applicable forms. Prior to submitting QBAD repayments to John Hancock, the plan sponsor must verify (working with their TPA) that the repayment can be accepted into the contract, including that the repayment is being made within the period permitted by law and that the repayment doesn't exceed the amount of the QBAD.

Section 325

Exclusion of Roth from participant RMDs

Prior to 2024, a participant's RMD is calculated by considering all of his or her account balances (both pretax and Roth), and the RMD can be paid from all sources in the plan.

Beginning with 2024 RMDs, SECURE 2.0 excludes Roth amounts (both Roth deferrals and in-plan Roth conversions) from both the RMD calculation for participants (but not for beneficiaries) and as a source of payment for RMDs during the life of the participant.

John Hancock preparation

We began complying with this change as of January 1, 2024, and our systems and forms have been updated as applicable.

Next steps

When submitting an RMD withdrawal form for participants for 2024 and after, don't include Roth accounts in the calculation of RMDs and don't direct RMDs to be deducted from Roth sources. In the year of the participant's death, even if the RMD is paid to a beneficiary, Roth should be excluded from the RMD calculation, and you shouldn't direct RMDs to be deducted from Roth sources.

If a plan does *not* currently permit partial distributions, the plan sponsor may want to consider amending the plan to add partial distributions. Making this change would allow participants whose RMDs were reduced to make up the difference by taking partial distributions. Any such amendment would be a discretionary amendment and would need to be done by the end of the plan year in which the amendment is effective (it's not eligible for the delayed amendment deadline otherwise applicable to SECURE 2.0 changes).

Section 332

SECURE 2.0 Act allowed employers to replace a SIMPLE IRA with a safe harbor 401(k) plan 1 during the plan year

Previously, a SIMPLE IRA could only be terminated at year end. Section 332 permits the midyear termination provided it's replaced with a safe harbor 401(k) plan (or certain other similar arrangement). A pro-rated formula is required to determine how much a participant can contribute for the remainder of the year during which the 401(k) plan was established. The contribution limit must be described in the safe harbor notice for only the plan year in which the midyear conversion was done. Additionally, the provision waives the rule that money can only be rolled over to the new 401(k) plan after two years of the individual's participation in the SIMPLE IRA plan provided such rollover is subject to 401(k) withdrawal restrictions; **however, plans are not required to accept these rollovers. At this time, John Hancock will not accept terminated SIMPLE IRA rollover money that is less than two years old.**

John Hancock preparation

The onboarding group may now set up newly established safe harbor 401(k) plans as a replacement to a SIMPLE IRA that terminated midyear. Additionally, if a TPA inquires about what changes must be made to the safe harbor notice, John Hancock can provide a notice template.

Next steps

The TPA group may now replace SIMPLE IRAs with new 401(k) safe harbor plans. TPAs must follow up with the plan sponsor to obtain the applicable contribution information that's needed to determine the correct limits for any required tracking and/or year-end testing. Additionally, TPAs must confirm that no money that is rolled over from the SIMPLE IRA to the 401(k) plan for participants with less than two years of participation. Finally, the TPA must ensure the safe harbor notice is modified to describe the pro-rated requirements for midyear conversions because it will affect the plan participant's 401(k) contribution limit for that year.

For more information about SECURE 2.0 and to see what we've made available for our business partners, visit our SECURE 2.0 web page.

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