SECURE 2.0

ACT OF 2022

A CLOSER LOOK: QUALIFIED DISASTER RECOVERY DISTRIBUTIONS

When Congress passed the SECURE 2.0 Act in 2022, it spanned nearly 400 pages and included 92 provisions. So you don't need to wade through the whole document, we're highlighting key provisions that impact most retirement plans.

SECTION 331, SPECIAL RULES FOR USE OF RETIREMENT FUNDS IN CONNECTION WITH QUALIFIED FEDERALLY DECLARED DISASTERS.

Summary of Provision: Section 331 provides permanent rules relating to the use of retirement funds in the case of a federally declared disaster. The provision allows up to $22,000 to be distributed from employer retirement plans or IRAs for individuals who have suffered an economic loss as a result of a federally declared disaster. Qualified disaster recovery distributions (QDRDs) are not subject to the 10% additional early withdrawal penalty that normally applies to distributions taken from retirement plans and IRAs prior to age 59-1/2. In addition, QDRDs are taken into account as gross income over three years. Participants may repay QDRD distributions to a retirement plan or IRA within three years from the date of distribution. Amounts distributed from a retirement plan or IRA prior to the disaster to purchase a principal residence in the disaster area can also be recontributed to the plan or IRA if the purchase did not occur as a result of the disaster. Employers may amend their plans to permit larger maximum loan amounts for affected individuals, and for additional time to repay outstanding plan loans.

What it means: Employers who sponsor 401(k), 403(b), or 457(b) plans may amend their plans to permit participants to take distributions and increased loans for those who are economically impacted by a federally declared disaster. Impacted participants may take up to $22,000 per disaster without being subject to the federal 10% early withdrawal penalty. Taxes on the withdrawals can be spread over three years and the money may be recontributed to the account during the three-year period following the date of distribution. For retirement plans that allow loans, the provision increases the maximum loan amount to $100,000, or 100% of the retirement plan participant's vested account balance. Loan repayments may be deferred up to one year.

Why it happened: When hurricanes, wildfires, and other disasters strike, Congress sometimes grants temporary relief to allow impacted people to take money from their retirement accounts and IRAs. However, the time between the disaster and the federal relief — if granted — was often lengthy. The provision makes the disaster relief rules permanent and consistent across all federally declared disasters.

The impact: Plan sponsors can now offer participants a means of readily accessing money if they are economically impacted by a federally declared disaster. Because the distribution can be recontributed to the retirement account, this helps guard against leakage.

Effective date: Disasters occurring on or after January 26, 2021.

Transamerica targeted support date: Currently supporting.

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