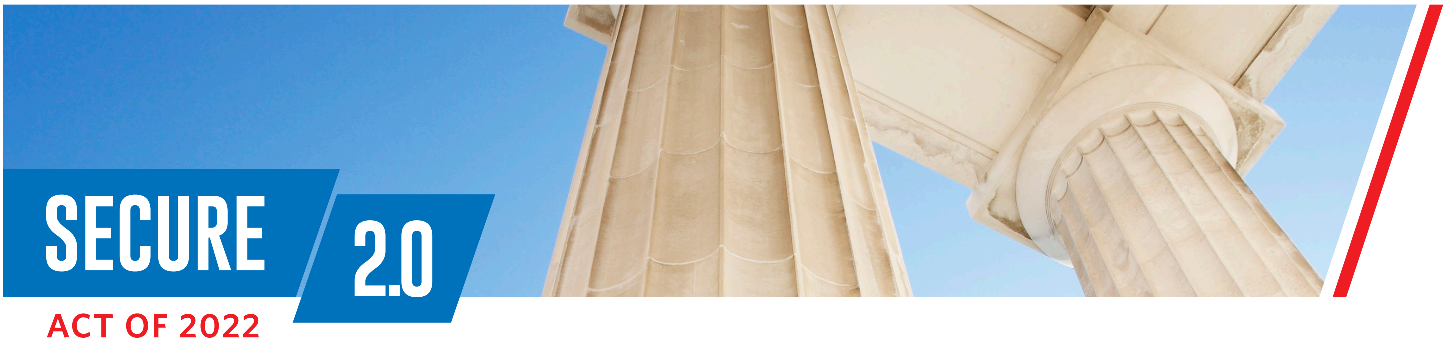

A CLOSER LOOK: EMERGENCY PERSONAL EXPENSE WITHDRAWALS

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 115, WITHDRAWALS FOR CERTAIN EMERGENCY EXPENSES

Summary of the provision: Generally, a 10% early withdrawal penalty applies to distributions taken from tax-preferred retirement accounts, such as 401(k) plans and IRAs, prior to age 59½, unless an exception applies. Section 115 provides an exception for certain distributions used for emergency personal expenses, defined as unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses. Only one distribution of up to $1,000 is permissible per year. The participant may repay the amount withdrawn within three years from the date of distribution. If the participant does not repay or recontribute (through deferrals) the amount withdrawn, no further emergency personal expense withdrawals are permissible during the three calendar years following the year of distribution.

What it means: Employers sponsoring 401(k), 403(b), or 457(b) plans may amend their plans to permit participants to take a penalty-free withdrawal of up to $1,000 to help pay for an emergency personal expense. Only one emergency personal expense withdrawal is permitted per year, and the money can be paid back to the account within three years. Plan participants can self-certify that the withdrawal is for an unforeseeable or immediate financial need relating to a personal or family emergency, so there is no added administrative burden for plan sponsors who want to offer this provision.

Why it happened: Studies have shown many people have difficulty covering a significant unexpected cost with their household savings. The provision provides flexibility by allowing the account owner to repay the withdrawal within three years. Ongoing contributions to the retirement account count toward the repayment.

The impact: Plan sponsors can now offer another option to support their participants when they face unforeseen expenses such as car repairs, a broken water heater, or other financial challenges that do not rise to the level of a hardship withdrawal. Since another emergency personal expense withdrawal cannot be made until a prior withdrawal has been repaid, this helps guard against participants slowly draining their retirement account.

Effective date: Distributions taken after December 31, 2023.

Transamerica targeted support date: Planning support by January 1, 2024

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