

SECURE 2.0 Act and Its Impact on Defined Benefit Plans

In our prior alerts, we introduced the SECURE 2.0 Act of 2022 (SECURE 2.0 or the Act), a portion of the Consolidated Appropriations Act. We discussed key provisions applicable to all [qualified retirement plans](#), as well as provisions applicable to only [defined contribution plans](#). This alert, the final alert in our series covering the retirement plan changes included in SECURE 2.0, summarizes provisions applicable only to defined benefit plan sponsors.

Reasonable Interest Credit Under Cash Balance Plans. The Internal Revenue Code provides that interest credit in a hybrid-defined benefit plan must not exceed the actual market rate of return unless the plan uses a reasonable, fixed-interest credit. The Act clarifies that an interest credit rate that does not exceed 6 percent is deemed to be reasonable for this purpose. This provision is effective for plan years beginning after December 29, 2022.

Enhancing Retiree Health Benefits in Pension Plans. Under current law, a plan sponsor may use assets from an overfunded pension plan to pay retiree health and life insurance benefits. The Act extends the sunset date of this feature to the close of 2032, and permits asset transfers to pay retiree health and life insurance benefits, provided the transfer is no more than 1.75 percent of plan assets and the plan is at least 110 percent funded. This provision is effective for transfers made on or after December 29, 2022.

Defined Benefit Annual Funding Notices. The Act requires plan sponsors of defined benefit plans to include additional information regarding plan funding status, such as an asset and liabilities statement for the preceding two years; a statement regarding the number of retired, separated and active participants and their benefits status for the preceding two plan years; and information regarding the average return on assets for the plan year. This change is effective for plan years beginning after December 31, 2023.

Financial Options Risk Mitigation Action Required Information. Existing law permits defined benefit plan sponsors to waive lifetime payments in exchange for a single lump sum payment. The Act requires plan sponsors that have implemented this option to provide affected individuals with information regarding the value of lifetime benefits, details about the election period and other information 90 days prior to the applicable election period. Plan sponsors

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must also provide the U.S. Department of Labor and Pension Benefit Guaranty Corporation data regarding the lump sums being offered, as well as provide the agencies its model notice. The agencies are required to issue regulations addressing these requirements by December 29, 2023.

Termination of Variable Rate Premium Indexing. The Act removes the "applicable dollar amount" language in the rules for determining the premium fund target for purposes of unfunded vested benefits and replaces it with a flat \$52 for each \$1,000 of unfunded vested benefits. This change is effective December 29, 2022.

If you have any questions about SECURE 2.0 or the Consolidated Appropriations Act of 2023 and the potential impact these legal changes could have on your benefit plans, please contact your Reinhart benefits attorney.

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