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NAVIGATING THE SECURE 2.0 ACT:

HOW EMPLOYERS CAN HELP EMPLOYEES AVOID THE PITFALLS OF EMERGENCY WITHDRAWALS

With the introduction of the SECURE 2.0 Act, employees now have the option to make early "emergency withdrawals" from their retirement accounts, providing a quick fix for those facing immediate financial crunches. But while this provision might seem like a timely lifeline, it can pose significant long-term risks for employees. As such, employers need to step up and guide their teams through this new terrain, helping them make smart decisions that won't jeopardize their future financial security.

THE CORE DETAILS OF SECURE 2.0 EMERGENCY WITHDRAWAL

The new 2024 legislation allows employees to withdraw retirement savings to cover what the IRS calls "unforeseeable" or immediate financial needs.

Let's break down the key points:

Withdrawal Limits: The maximum amount an employee can withdraw is $1,000 per year. This cap ensures that the withdrawal is used strictly for emergencies rather than as a routine source of funds.

Qualifying Emergencies: The IRS defines qualifying emergencies as unforeseeable or immediate financial needs. Think medical bills, home repairs after a natural disaster, or urgent car fixes—expenses that blindside you and require immediate attention.

Penalty-Free, But Taxable: Unlike other early withdrawals from retirement accounts, this one doesn't come with a 10% penalty. However, employees still need to pay income taxes on the amount withdrawn, which could have implications come tax season.

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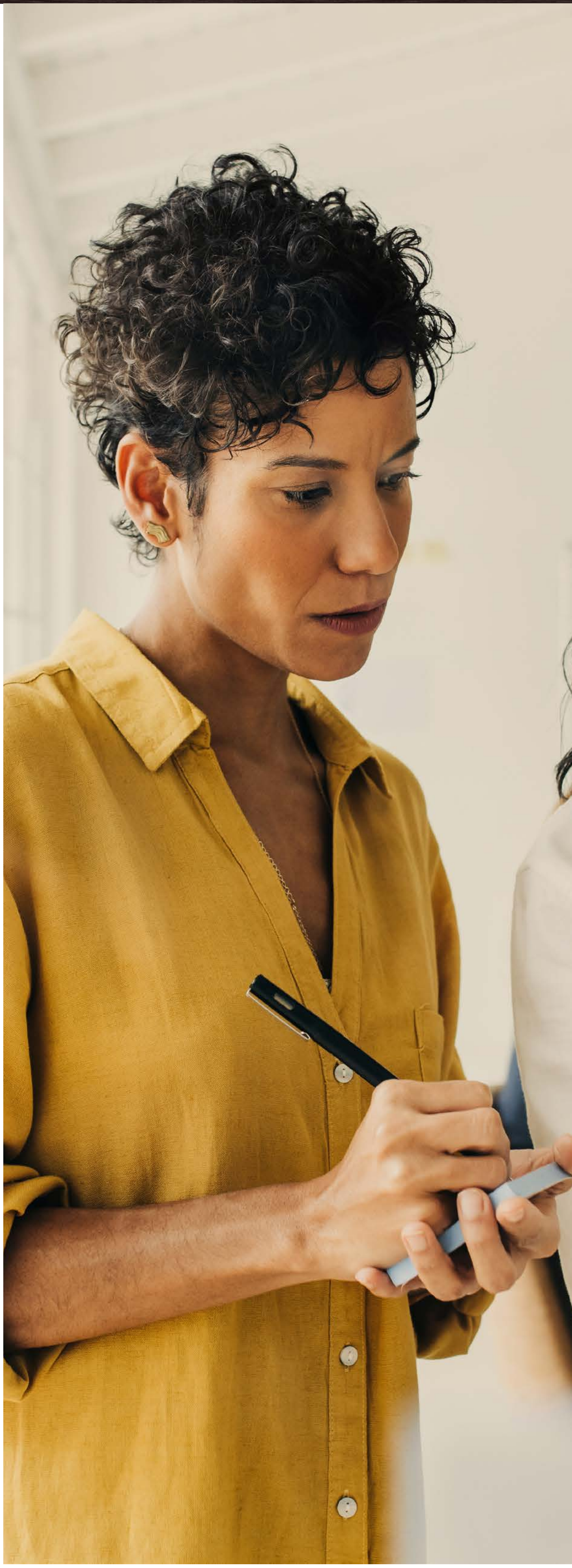
Repayment Timeframe: There's a three-year window to repay the withdrawn funds. If an employee does so, they can recover the taxes paid. If not, they're barred from making another emergency withdrawal until the original is fully repaid.



A SHORT-TERM FIX, NOT A LONG-TERM SOLUTION

While the SECURE 2.0 emergency withdrawal is a safety net, it's not a financial strategy. Dipping into retirement savings should be a last resort, not a go-to solution. Every dollar withdrawn today is a dollar that won't be growing for tomorrow, potentially delaying retirement and compromising financial security in the long run.

This is where HR leaders and employers come in. For employees to make this withdrawal, they must self-certify in writing to their employer that the withdrawal is necessary due to an emergency. It's in these moments where employers can guide employees on how to use this provision wisely and sparingly and encourage employees to view the emergency withdrawal as a last resort, rather than a first option. The emergency withdrawal should be a one-time solution rather than a crutch. This distinction is crucial for preserving long-term financial health.

HOW EMPLOYERS CAN LEAD THE CHARGE FOR FINANCIAL WELLNESS

With the cost of living on the rise, businesses need to be proactive in helping their employees avoid the need to tap into their retirement funds.

Here are some ideas to consider:

Promote Financial Wellness Programs: Make sure your employees know about the full suite of financial benefits available to them—whether it's access to financial advisors, budgeting tools, or educational resources. These programs can help employees manage their finances better and avoid emergencies alltogether.

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Encourage Smart 401(k) Contributions: Guide employees in adjusting their 401(k) contributions so they're saving enough without straining their current finances. Automatic enrollment and escalation features can help employees gradually boost their savings over time.

Host Financial Planning Workshops: Host workshops or seminars focused on building strong saving habits, budgeting, and long-term financial planning. Providing employees with the knowledge and tools to manage their finances can significantly reduce the likelihood of them needing to make emergency withdrawals.

Set Up Emergency Savings Accounts (ESA): Offer or encourage the use of ESAs alongside retirement plans. These accounts are designed to cover unexpected expenses, reducing the need for emergency withdrawals from retirement savings.

Create Employee Assistance Programs (EAPs): EAPs can offer counseling and support services for employees facing financial stress. By addressing the root causes of financial strain, these programs can prevent emergencies from escalating to the point where a retirement withdrawal becomes necessary. Long-term planning can go a long way in helping employees build a solid financial foundation.

THE BOTTOM LINE

The SECURE 2.0 Act's emergency withdrawal provision offers valuable support for employees in crisis, but it's not without risks. As prices continue to climb and financial pressures mount, employers must take an active role in helping their workforce build a solid financial foundation. By promoting responsible saving habits and providing access to financial resources, businesses can ensure their employees are better prepared for the unexpected—without jeopardizing their retirement security.

In the end, fostering a financially secure workforce is not just a benefit to employees—it's a boost to your company's stability and productivity. Investing in your employees' financial well-being is an investment in the long-term success of your business.

As always, should you have any questions, please contact your Parker, Smith & Feek Benefits Team. While every effort has been taken in compiling this information to ensure that its contents are totally accurate, neither the publisher nor the author can accept liability for any inaccuracies or changed circumstances of any information herein or for the consequences of any reliance placed upon it.