MEMORANDUM

cityofnovi.org

TO: VICTOR CARDENAS, CITY MANAGER

FROM: CARL JOHNSON, FINANCE DIRECTOR

SUBJECT: SECURE ACT 2.0 UPDATE

DATE: JUNE 27, 2023

Over the past month or two I have had several questions about the new SECURE Act 2.0 and what impact, if any, it has on the City's pension and 457 plans. After follow-up with MERS and attending several webinars, I wanted to share a summary of the information I have learned about the Act. The purpose of this memorandum is to provide an overview of the SECURE Act 2.0 and its impact on the City and its employees.

Overview

The original SECURE (Setting Every Community Up for Retirement Enhancement) Act from December 2019 was created to respond to the growing concern about the inadequacy of individual retirement savings. SECURE Act 2.0 signed December 29, 2022, builds upon these retirement related provisions. The City of Novi provides pension benefits to eligible employees through MERS using 401(a) defined contribution and defined benefit pension plans. The City also offers a voluntary ROTH IRA and 457(b) Deferred Compensation plan through Mission Square. The good news for the City is that the Act has no direct financial impact on the City. The additional administrative burden on MERS and Mission Square may result in future administrative cost increases but the impact should be minimal.

As stated above, the purpose of the Act is to address the concern of inadequate individual retirement savings accounts and, as such, the Act primarily addresses additional ways individuals can put more into their retirement accounts and keep it there longer. The following are some of the key changes:

- The Act delays the requirement of taking mandatory minimum distributions from age 72 to 75
- Allows for contributions into 457(b) plans at any time during the month rather than "first day on the month" only
- Provides for higher "catch-up" contributions limits for those age 60-63
- Public safety officers allowed to exclude $3,000 of retirement distributions if used for health insurance premiums
- Several new penalty waivers (10% early distribution penalty) available

Summary

MERS and Mission Square are aware of the new SECURE Act 2.0 requirements and are ensuring the City properly implements them along with ensuring our employees get any entitled benefits from the changes. Attached is a summary prepared by MERS of all the applicable changes for your reference and all employees have been encouraged to discuss any of these with the City's Human Resource Department or directly with MERS.