SECURE 2.0 Act optional provision guide:

Qualified Disaster Recovery Distributions

Effective for: 401(k), 403(b), governmental 457(b), and Individual Retirement Accounts (IRAs)
Effective date for Vanguard participants: January 1, 2024

Purpose

The SECURE 2.0 Act's optional Qualified Disaster Recovery Distribution (QDRD) provision adds structure to disaster recovery measures that have historically been an administrative challenge. In the past, financial relief for participants affected by federally declared disasters was handled reactively. This approach led to strain on participants and plan sponsors as they interpreted point-in-time financial recovery measures enacted by the IRS rather than proactive, standardized guidance. The QDRD provision is intended to eliminate any delay or uncertainty concerning access to plan funds following a disaster.

Provision overview

The QDRD is a new type of distribution for participants impacted by a federally declared disaster for up to $22,000 (per disaster).

- Eligible participants' principal residence must be in the qualified disaster area, and they must sustain an economic loss.
- These participants are not subject to the 10% early withdrawal penalty and repayment is available, although optional, within three years of the distribution. Repayment options will be available beginning January 1, 2024.
- An affected participant can take a distribution on or after the first day of the incident period of a qualified disaster and has 180 calendar days following the first day of the incident period to complete a distribution.
- Taxation may be spread over three tax years.

This provision also permits additional loan support and residential construction relief for affected participants.

- Eligible participants can request a loan amount for the lesser of $100,000 or 100% of the present value of their vested benefit and a one-year extension of loan repayments otherwise due on or after a disaster's first incident date and through the end of a subsequent 180-day period.
- Participants can also repay distributions made to purchase or construct a principal residence in a disaster area where the home was never purchased or constructed due to the disaster.

Vanguard's approach

Although this provision took effect in 2023, we are proud to offer this provision to plan sponsors as of January 1, 2024, using a phased approach to ensure we provide the best possible experience to our clients and participants.

Phase one	Phase two	Phase three
Enables participant withdrawals for the QDRD provision with minimal manual processing for distributions.	Expands the technology governing withdrawal architecture with built-in eligibility rules, eliminating the need for manual processing.	Establishes the infrastructure necessary for Vanguard to support the additional loan component of the provision.

Next steps

We encourage you to examine key trends among your workforce to determine if this provision is a good fit for your organization.

- Plan demographics, saving trends, and industry-specific considerations can help inform your decision.
- You may also want to consider the geographic location of your workforce in case it has a historically high rate of natural disasters or other risk factors.
- Disasters can encompass more than just environmental hazards, so you may benefit from a more holistic internal risk assessment to feel confident in your choice to adopt this optional provision.

As always, your Vanguard client success executive is here to help with any questions you may have about Qualified Disaster Recovery Distributions or the SECURE 2.0 Act.

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