

Vanguard[®]

SECURE 2.0

Act optional provision guide

Automatic cash-out limit increase



Effective January 1, 2024

Effective for 401(k), 403(b), 401(a), money purchase, and defined benefit plans

Purpose

The SECURE 2.0 Act's optional automatic cash-out limit increase (ACO) provision raises the statutory limit at which plan sponsors can distribute former employees' vested account balances without additional participant consent. Seen as long overdue by the industry, this cash-out limit was last raised to \$5,000 more than 25 years ago. This new increase to \$7,000 can help plan sponsors ease the administrative effort associated with small-balance accounts and unclaimed participant assets.

Provision overview

Upon a participant's separation from service, plan sponsors have the option to cash out the former employee's vested account balance without additional consent if that balance is below a statutory limit of \$5,000. The optional automatic cash-out increase provision of SECURE 2.0 raises that limit from \$5,000 to \$7,000, effective for distributions made after December 31, 2023.

- Former employees' vested account balances above \$1,000 and up to \$5,000 (with an optional increase to \$7,000) are automatically rolled over into an IRA.
- Vested account balances of \$1,000 or less are paid out as a cash distribution.

Increasing your automatic cash-out limit, from \$5,000 to \$7,000, along with other recent changes by SECURE 2.0 and the Department of Labor (DOL), can help ease administrative costs and recordkeeping efforts for plan sponsors. Two key changes include:

Large-plan filer status (DOL)

- Prior to 2023, large-plan filers (i.e., plans with more than 100 participants as of the first day of the plan year) were required to undergo an independent audit of all eligible participants, even if those participants were not contributing to the plan.
- Beginning with the 2023 plan year, only participants with actual account balances need to be included. The increased automatic cash-out limit may allow more employers to remain below the required audit threshold.

Retirement Lost & Found (SECURE 2.0)

- SECURE 2.0 requires the DOL to create an online "Lost and Found" database for retirement accounts by 2025. While the goal of reuniting participants with their retirement assets is embraced by the industry, plan sponsors will likely experience a rush of enquiries from former employees when the database is launched.
- The increased automatic cash-out limit may help employers minimize the number of small-balance account questions from participants.

Vanguard's approach

Vanguard is taking a phased approach to implementation of the ACO provision, based on five client categories. Non-QJSA plan sponsors with a current limit of \$5,000 saw their limit automatically increase March 1, unless they had opted out of this provision. All other clients have the choice to opt in to the increased limit and will see an effective date in Q2 2024.

It is important to note that plan amendments for all provisions enacted because of the SECURE Act of 2019 (SECURE 1.0) and SECURE 2.0 are due by December 31, 2026. Vanguard will complete the ACO provision update on behalf of plan sponsors who use Vanguard's preapproved plan document. Plan sponsors who maintain their plan documents independently are responsible for their own amendments to accommodate this provision.

Client categories	Plan sponsor option	Vanguard action
Category A Non-QJSA plan sponsors with the automatic cash-out service set to \$5,000.	Plan sponsors were informed via email that their automatic cash-out limit would be raised to \$7,000 if they did not opt out by February 5, 2024.	Vanguard raised the automatic cash-out limit from \$5,000 to \$7,000 March 1 for all plan sponsors who had not opted out of this provision.
Category B Non-QJSA plan sponsors with the automatic cash-out service set to either \$1,000 or \$1,000 and \$5,000.	Plan sponsors can now opt in to the increased cash-out limit. Plans with a current limit of \$1,000 will also need to submit Vanguard's automatic rollover agreement.	Sponsors who opted in to this provision by February 5, 2024, saw Vanguard raise their cash-out limit on March 1. Plans may also opt in to this provision later.
Category C Plan sponsors with both QJSA and non-QJSA plans with the automatic cash-out service set to \$5,000.	Plan sponsors can now opt in to the increased cash-out limit for their non-QJSA plans only. QJSA plans cannot opt to change their cash-out limit at this time.	Sponsors who opted in to this provision by February 5, 2024, had their non-QJSA cash-out limit raised on March 1. Plans may also opt in to this provision later.
Category D QJSA plan sponsors with the automatic cash-out service set to either \$1,000 or \$5,000.	Due to the spousal consent limit, the option for QJSA plans to raise their automatic cash-out limit is not yet available.	Vanguard will provide an opportunity for QJSA plans in this category to opt in to the increased cash-out limit later this year.
Category E Plan sponsors with both QJSA and non-QJSA plans with the automatic cash-out service set to \$1,000.	Due to the spousal consent limit and prioritization, the option to raise the automatic cash-out limit is not yet available for plans in this category.	Vanguard will provide an opportunity for QJSA and non-QJSA plans in this category to opt in to the increased cash-out limit later this year.

Next steps

We encourage plan sponsors to look at several factors when considering whether to adopt the increased automatic cash-out limit, including workforce population, missing participant rates, and retirement plan leakage. Increasing your plan's automatic cash-out limit may help ease the administrative effort associated with small-balance accounts and reduce the risk of unclaimed participant assets.

As always, your Vanguard client success executive is here to help you with any questions you have about the optional ACO provision or the SECURE 2.0 Act.

