Vanguard

# SECURE 2.0 Act optional provision guide

Emergency expense withdrawal

## Purpose

Not all employees have sufficient savings for an emergency. Plans offering this penalty-free withdrawal option to participants could enhance financial flexibility for employees in need. This provision allows employees access to a small portion of their retirement funds in the event of unforeseen emergencies. We encourage plan sponsors thinking about offering this provision to consider the age and retirement preparedness of their employee population.

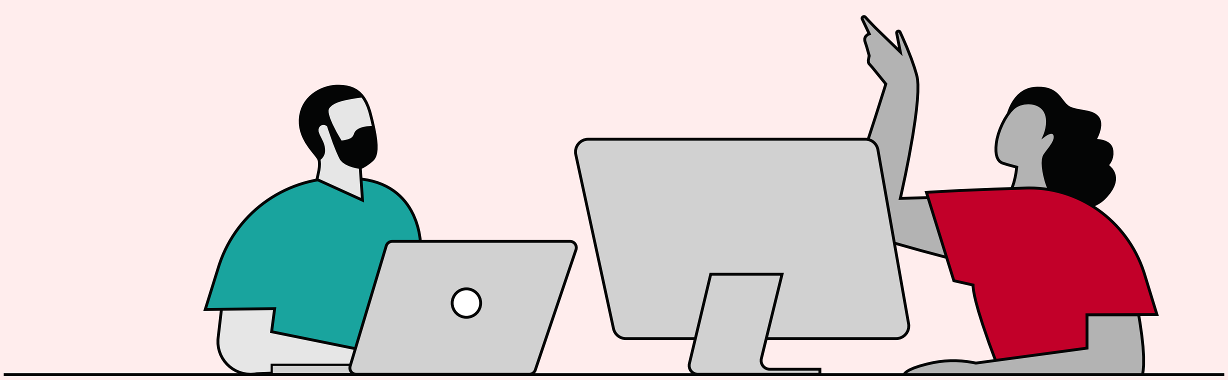
## Provision overview

This optional provision gives employees the ability to take one emergency distribution of up to $1,000 for personal or family emergency expenses without being subject to the 10% early withdrawal penalty.

- Participants are required to self-certify that they meet the requirements for this distribution type; that it is being used for purposes of unforeseeable or immediate financial need relating to a personal or family emergency.
- Participants may withdraw the lesser of $1,000 or their full, vested balance minus $1,000.
- Only one distribution per year is allowed, and participants cannot take additional distributions for the next three calendar years until their first distribution is repaid.
- The distribution may be repaid as a lump sum or through ongoing elective deferrals. Once repaid, a participant may again take a personal emergency distribution once each calendar year.
- During the eligible three-year repayment time frame, employee contributions count toward repayment.

**Effective date: January 1, 2024**

Effective for: 401(k), 403(b), governmental 457(b), 401(a), and money purchase plans



## Vanguard's approach

As we acclimate to an environment where SECURE 2.0's many new rules move from theory to practice, we've chosen our next stage of optional provision implementation with care. Vanguard will prioritize the emergency expense withdrawal provision as part of a larger focus on optional participant withdrawal provisions. These provisions put participants first, giving them greater flexibility to access funds and modernizing defined contribution plan rules to meet the diverse needs of today's workforce.

## What to expect

The emergency expense withdrawal provision requires a minimal amount of plan sponsor action compared with others outlined by SECURE 2.0 because the recordkeeper bears the primary responsibility for implementation. As most implementation changes occur at the recordkeeper level, this provision can be carried out quickly and iteratively, while providing additional flexibility to both plan sponsors and participants.

**Vanguard will offer this provision to plan sponsors starting in the first quarter of 2025,** and we will share more information on the implementation process in the coming months. When determining whether to adopt this optional provision, plan sponsors should consider if they want to provide employees with access to retirement savings for non-retirement savings reasons as well as other benefits offerings, such as Employee Assistance Programs (EAPs) and disability benefits, that may provide participants with access to funds in case of an emergency. Details on how Vanguard will administer this provision, as well as how it will affect plan sponsors and their participants, are outlined below.

| Vanguard action | Plan sponsor impact | Participant impact |
|---|---|---|
| Vanguard will accommodate participant emergency expense withdrawal requests both by phone and online. Because this withdrawal type requires written certification by the participant, phone requests will generate a form for the participant to complete. | No action is required by the plan sponsor. | Participants must self-certify in writing that they meet the requirements for this distribution type. The emergency expense withdrawal is to be used for purposes of unforeseeable or immediate financial need relating to a personal or family emergency. |
| When a participant requests this type of distribution, Vanguard will verify they have sufficient funds for this type of withdrawal and are not exceeding the frequency and dollar amount allowed. | No action is required by the plan sponsor. | These withdrawals are exempt from the mandatory 20% withholding and instead will be subject to 10% withholding, unless the participant specifies a different withholding rate. If applicable, participants can claim the exemption from the 10% early withdrawal penalty as part of their regular tax filing. |
| The distribution may be repaid as a lump sum or through ongoing elective deferrals within three years. Vanguard will monitor these repayments to ensure that participants do not take another emergency expense withdrawal until the prior distribution has been repaid. | No action is required by the plan sponsor. | The distribution may be repaid as a lump sum or through ongoing elective deferrals. Unlike the repayment for other withdrawals, employee contributions count toward repayment during the three-year time frame. Once repaid, a participant may again take a personal emergency distribution once each calendar year. |

# Frequently asked questions

**1. How does this provision define an emergency expense withdrawal?**

This optional provision defines an emergency expense as a distribution for the purposes of meeting unforeseeable or immediate financial needs relating to personal or family emergency expenses. Plan sponsors may rely on the employee's written certification that they qualify for this type of withdrawal.

**2. Are participants always allowed to withdraw the full $1,000 for this distribution type?**

No. Participants may withdraw the lesser of $1,000 or their total vested account balance minus $1,000. For example, if a participant has a full, vested account balance of $1,200, the maximum amount of their distribution would be $200. A participant with a vested account balance of $2,000 would be allowed to take the full $1,000 distribution.

**3. How often can this distribution type be taken out?**

Only one distribution per year is allowed, and participants cannot take additional distributions for the next three calendar years and until their first distribution is repaid. Once repaid, a participant may again take a personal emergency distribution once each calendar year.

**4. How can emergency expense repayments be made?**

Repayments may be made through ongoing deferrals to the plan or as a lump sum. Unlike the repayment of other withdrawals, employee contributions count toward repayment during the three-year repayment time frame.

**5. What happens if a participant does not repay the original emergency expense withdrawal?**

If the original emergency expense withdrawal is not repaid, a participant cannot take any additional emergency expense withdrawals for the next three calendar years.

**Connect with Vanguard®**

institutional.vanguard.com • 800-523-1036



082024

Vanguard®