

SECURE 2.0 Act optional provision guide

Qualified Disaster Recovery Distributions



Purpose

The optional Qualified Disaster Recovery Distribution (QDRD), one aspect of the Automatic Disaster Relief provision under the SECURE 2.0 Act, 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.

Provision overview

QDRD is a new type of distribution under the Automatic Disaster Relief provision allowing up to \$22,000 (per disaster) for participants impacted by a federally declared disaster occurring on or after January 26, 2021.

- 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

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.

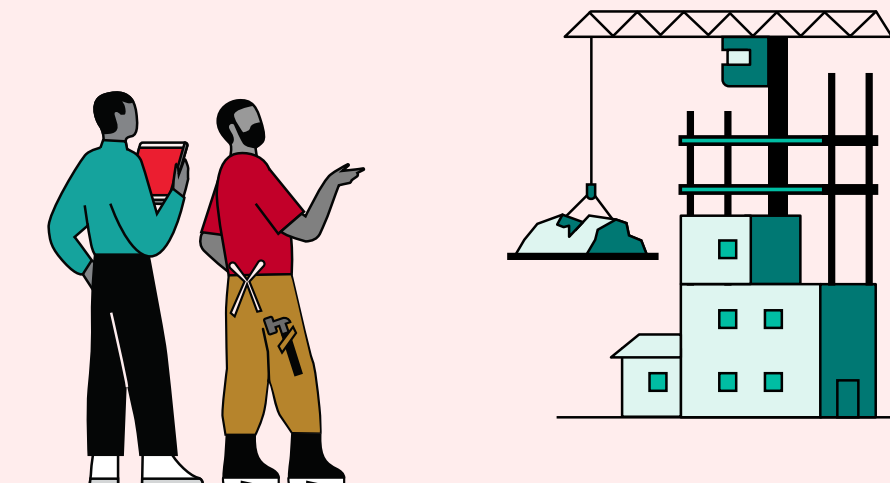
years of the distribution. Repayment options became available starting January 1, 2024.

- 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.



Effective date: January 26, 2021

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



Vanguard's approach

This provision is effective for disasters occurring on or after January 26, 2021. Vanguard began to offer the QDRD provision to plan sponsors

What to expect

Vanguard will expand the technology governing hardship architecture with built-in eligibility rules, thereby eliminating the need for manual

as of January 1, 2024, using a phased approach to ensure we provide the best possible experience to our clients and participants.

processing, beginning in Q1 2025. We will keep clients updated on timing and implementation dates as we get closer.

Phase one	Phase two
Available January 1, 2024 Enables participant withdrawals for the QDRD provision with minimal manual processing for distributions.	Available Q1 2025 Expands the technology governing withdrawal architecture with built-in eligibility rules, eliminating the need for manual processing.

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.

Frequently asked questions

1. What is a qualified disaster?

A qualified disaster means any disaster with respect to which a major disaster has been declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act after December 27, 2020. Detailed qualified Disaster information is available at [FEMA.gov/disaster](https://www.fema.gov/disaster).

2. Is a participant required to self-certify as a disaster survivor by a specific date after the disaster occurs?

Yes. An affected participant can take a qualified disaster recovery 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 of up to \$22,000.

The QDRD provision allows a participant to self-certify as a disaster survivor for federally declared disasters occurring on or after January 26, 2021. Given this eligibility period, it's possible a participant could have been affected by a disaster under the terms of the provision but

is now past the 180-day window to complete a distribution. If the participant already took a distribution that would qualify as a QDRD and paid the 10% excise tax, they have the option to amend their taxes to recoup the taxes they originally paid and potentially spread the liability for the distribution across three tax years.

3. If a participant is affected by a federally declared disaster, can they complete multiple withdrawal requests adding up to a total distribution amount of \$22,000, or are they limited to withdrawing the full amount through one request?

Participants are not limited to one request. Affected participants can withdraw a maximum of \$22,000 per disaster. A participant can take multiple distributions from their employer plan, their IRA, or a combination of the two, but the total distribution amount cannot exceed \$22,000. The participant is responsible for ensuring they aren't taking out more than \$22,000 if they opt to withdraw from multiple account types.

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