Vanguard

SECURE 2.0 Act optional provision guide

Self-certification for hardship withdrawals

Purpose

As part of the SECURE 2.0 Act, the optional self-certification for hardship withdrawals provision modifies current hardship rules to allow plans to permit participants to self-certify that a distribution meets the requirements for a withdrawal and helps remove an administrative barrier for those in need of financial assistance. With this change, plan sponsors are no longer required to obtain documentation or have a participant provide specific information on the need for a hardship withdrawal.

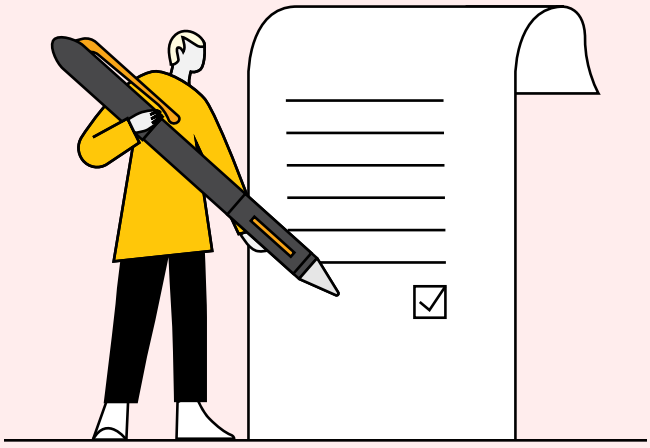
Provision overview

A hardship withdrawal is defined as a distribution from a participant's elective deferral account for an immediate and heavy financial need. Hardship withdrawals may also be related to a financial need for the participant's spouse, children, or other dependents. Under certain circumstances, and based on the terms of the plan, a participant may be permitted to take a hardship withdrawal for a named beneficiary. Hardship distributions cannot exceed the amount of the participant's need and all other available distributions under all plans of the employer must be taken first.

The plan document outlines the circumstances under which a hardship withdrawal may be allowed. Self-certification is available only for the "safe harbor" reasons for a hardship withdrawal, which include:

- Medical expenses.
- Purchase of a principal residence.
- Expenses to prevent eviction from, or foreclosure on, a principal residence.
- Repair of damage to a principal residence.
- Tuition and fees for post-secondary education.
- Burial or funeral expenses.
- FEMA-declared disaster.

Effective date: January 1, 2023
Effective for: 401(k), 403(b)



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 has chosen to prioritize the self-certification of hardship 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 self-certification of hardship provision requires a minimal amount of action compared with others outlined by SECURE 2.0. As most implementation changes take place 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 details on the implementation process in the coming months. In the meantime, we encourage plan sponsors to think about whether they want to provide easier access to retirement funds for hardships, review their current hardship withdrawal request volumes, and examine the current level of documentation efforts and administrative burden to determine if participant self-certification would benefit their employees.

Vanguard action	Plan sponsor impact	Participant impact
The self-certification for hardship withdrawals provision modifies current hardship rules to allow plans to permit participants to self-certify that a distribution meets the requirements for a hardship withdrawal.	Plan sponsors are no longer required to obtain documentation or have a participant provide specific information on the need for a hardship withdrawal.	For participants to demonstrate the need for a hardship withdrawal, they must certify that: • The distribution is being made for one of the safe harbor reasons. • The amount of the distribution is not more than the amount required to satisfy their financial need. • They have no alternative means to satisfy their financial need.
Vanguard can provide distribution services to plans that permit participants to make withdrawals from their plan accounts due to a financial hardship.	Plan sponsors can choose to elect Vanguard's distribution services to allow their participants to work directly with us for hardship self-certification.	A participant seeking a hardship withdrawal can work with Vanguard to determine their eligible amount based on the supporting documentation or a summary of hardship information, and plan sponsor approval is no longer required.

Frequently asked questions

1. If a plan sponsor adopts this provision, what must the participant do when requesting a hardship withdrawal?

To self-certify for a hardship withdrawal, a participant must certify that the distribution is being made for one of the safe harbor reasons, that the amount of the distribution is not more than the amount required to satisfy their financial need, and that the participant has no alternative means to satisfy their financial need.

2. Do plan sponsors need to collect source documentation to substantiate a participant's hardship withdrawal request?

No. Once implemented, documentation related to hardship withdrawals becomes the responsibility of the participant. Plan sponsors only need to document a request if they have reason to believe a participant's withdrawal does not meet the definition of a hardship under IRS guidelines.

3. Will the currently accepted hardship withdrawal reasons change given the new distribution provisions outlined by SECURE 2.0?

No. The definition of a hardship withdrawal is the same pre- and post-SECURE 2.0. The new distributions available under SECURE 2.0 are not new safe-harbor hardship withdrawal reasons. For example, an employee emergency expense would not qualify as a hardship, and the withdrawal is considered a separate withdrawal type with its own eligibility requirements.

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