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THE SECURE ACT 2.0: WHAT PLAN SPONSORS NEED TO KNOW

The SECURE 2.0 Act of 2022 seeks to increase retirement savings and expand coverage to employer-sponsored retirement plans. New provisions such as mandatory automatic enrollment, higher catch-up contributions for older workers, and part-time worker 401(k) eligibility are intended to support higher plan participation, address longevity risks, and improve retirement readiness among Americans. Below are some of the key impacts to plan sponsors and their participants.

EFFECTIVE AFTER DECEMBER 31, 2022

Enhanced Tax Credits to Cover Plan Start-Up Costs. Small businesses with up to 50 employees will receive a 100% tax credit (increased from 50%) for new retirement plan start-up expenses; capped annually at $5,000 per employer (which remains unchanged) for each of the first three plan years.

Optional Treatment of Employer Matching or Nonelective Contributions as Roth Contributions. Plan sponsors may allow participants to designate employer-matching or nonelective contributions as Roth contributions.

Age Increases for Required Minimum Distributions (RMDs). The age at which individuals are required to begin taking mandatory retirement plan withdrawals will be increased from age 72 to:

- Age 73 for a person who turns 72 after *December 31, 2022*, and age 73 before *January 1, 2033*
- Age 75 for an individual who turns 74 after *December 31, 2032*

403(b) Plan Access to MEPs and PEPs. New legislation expands retirement savings options allowing 403(b) plans to participate in multiple employer plans (MEPs) and pooled employer plans (PEPs), helping more workers save for retirement.

EFFECTIVE JANUARY 1, 2024

Emergency Savings Accounts. Allows employers to automatically enroll non-highly compensated employees in a pension-linked emergency savings account (PLESA). Employees may be opted into the account at up to 3% of salary; the employee-funded portion of the account is capped at $2,500 (or lower, as set by the employer).

The Starter-K Plan. Allows employers who do not offer a retirement plan to establish a new Starter K (401(k) or 403(b)) plan funded with employee deferrals. Eligible employees are auto enrolled, and the maximum savings amount is $6,000 per year. Individuals over age 50 can make additional catch-up contributions up to $1,000.

Rollover Option for Unused College Savings. Over the course of their lifetime, beneficiaries of 529 plans will be permitted to make a tax and penalty-free rollover of up to $35,000 in unused funds from their 529 account into a Roth IRA held in their name.

Roth Required Catch-Up Contributions for Higher Paid Employees. Participants over age 50 who want to make catch-up contributions and earn more than $145,000 will be required to make Roth contributions (provided a plan allows Roth contributions). Employees earning less than $145,000 can choose either pre-tax or Roth contribution type.

Employer Match on Student Loans. Enables employers to help employees save for retirement by matching employee student loan payments with contributions into their workplace retirement plan.

EFFECTIVE JANUARY 1, 2025

Mandatory Automatic Enrollment/Escalation for New Plans. Requires all new 401(k) and 403(b) plans to automatically enroll participants (employees may opt out) and auto-escalate savings to at least 3% but not more than 10% with deferral amount increases of 1% per year up to 10%, but not more than 15%. Existing plans are grandfathered in, and exemptions include employers with 10 or fewer employees, employers that have been in business less than 3 years, and church and governmental plans.

Higher Catch-Up Contributions for Employees Aged 60–63. Employees aged 60–63 will be able to increase their catch-up contribution to 401(k) or similar plans to $10,000 per year, or 50% more than the regular catch-up amount. Participants in SIMPLE plans will be allowed to contribute an additional $5,000. For individuals earning more than $145,000, the catch-up must be a Roth contribution. *Increased amounts will be indexed for inflation beginning in 2026*.

Improved Retirement Plan Access for Part-Time Workers. Reduces the required years of service from three to two years for long-term, part-time employees to save through a company's retirement plan. Employees who work for two consecutive 12-month periods during each of which they have at least 500 hours of service are eligible to contribute. Employers are not required to match contributions.

Retirement Savings Lost and Found. The DOL will establish an online, searchable database to assist plan participants and their beneficiaries with locating missing retirement plan accounts.

EFFECTIVE JANUARY 1, 2027

Enhanced Saver's Match. Previously the Saver's Credit, the Saver's Match is designed to help lower-income workers save for retirement through a Treasury matching program. To qualify for the match, employees must be age 18 years or older and earn up to $41,000 but not more than $71,000. The Treasury will match 50% of contributions up to $2,000 per individual.

CONSULT WITH YOUR FINANCIAL ADVISOR

SECURE 2.0 includes more than 90 provisions that apply to retirement plan sponsors. It's important to work closely with a knowledgeable financial professional to determine which rules impact your plan and take the necessary steps to stay in compliance with minimal disruption to your participants.

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