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SECURE 2.0: What Individual Investors and Employers Need to Know

The Securing a Strong Retirement Act of 2022 (SECURE 2.0), introduced by Ways and Means Committee Chairman Richard Neal (D-MA) and Kevin Brady (R-TX), passed the House on March 29, 2022. Both parties supported the bill, and it passed with a decisive 414-5 vote.

SECURE 2.0 builds on the Setting Every Community Up for Retirement Enhancement Act (the SECURE Act) that was passed in 2019 and clarifies a few of that bill's provisions. This bill's overall goal is to "increase retirement savings, simplify and clarify retirement plans" and "other purposes." It now goes to the Senate, where it is expected to go through a markup based on the Senate's own version of a similar bill—the Retirement Security and Savings Act of 2021.

Below are just a few of the changes that are currently being proposed as part of SECURE 2.0.

Automatic Enrollment in 401(k) Plans
Employees generally enroll in an employer's 401(k) plan by opting into it. An employee often gets an informational packet about the plan when they start a new job, and then they fill out a form or provide other information to the employer to become part of the plan.

SECURE 2.0 includes an automatic enrollment provision. Essentially, employees would always be part of the 401(k) plan when they start a new job or become eligible for the plan. However, an employee can opt-out if they wish. This new automatic enrollment would not apply to existing 401(k) plans.

The automatic enrollment also includes an increasing election amount. The initial rate is 3%, but it would increase each year to a total contribution of 10%. Employees can still opt to change their deferral rates or remove themselves from the plan altogether.

Increase of the Lowest Age for Required Minimum Distributions (RMDs)
Individual investors are required to take some funds out of their retirement accounts on an annual basis. Currently, withdrawals from your IRA, SIMPLE IRA, SEP IRA or other retirement plan must begin when you reach age 70 ½. Under SECURE 2.0, that age will gradually increase over time:

- Age 73 as of January 1, 2023
- Age 74 as of January 1, 2030
- Age 75 as of January 1, 2033

Currently, if investors do not take their RMD, they might have to pay a 50% excise tax on the amount that was not distributed as required. SECURE 2.0 also incorporates certain provisions to decrease the amount of tax payable for failure to take RMDs.

Changes to Catch-up Contributions
"Catch-up" contributions are an increase in the maximum amount investors can put into certain retirement accounts for those who are above a specific age. Right now, savers over the age of 50 can increase the standard contribution limits to "catch up" on their savings amounts.

Currently, the annual contribution limit for a 401(k) plan is $20,500, with a $6,500 catch-up amount permitted. Individual retirement accounts (IRAs) have a limit of $6,000, with a $1,000 catch-up limit.

Under SECURE 2.0, those amounts are increased for older investors. The House bill allows up to $10,000 in catch-up contributions for those who are 62, 63 or 64 years old (but not 65 and older).

SECURE 2.0 also specifies that all catch-up contributions would be subject to after-tax Roth treatment for employer-sponsored qualified retirement plans as of January 1, 2023. Right now, the taxpayer can choose whether they want their catch-up contributions to be Roth or not. Catch-up contributions to IRAs would continue to be pretax.

Matching Contributions
Right now, all employee match contributions are pretax. However, SECURE 2.0 would allow the employee to choose whether the match contributions are made pretax or after taxes (Roth). For employees who know that they will make more money in the future, having this additional tax shelter could be very helpful.

SIMPLE IRAs and SEP IRAs can also treat the employee contributions as Roth contributions. All of these contribution match provisions would go into effect in 2023.

Student Loan Payments
Instead of contributing to a retirement plan, SECURE 2.0 would permit employers to contribute matching contributions to "qualified student loan payments." This definition is deliberately broad so that most loans taken out to pay for educational expenses would be "qualified."

The employee would have to certify to the employer about the amount that they are contributing before the employer makes the match payment. Similar to the other matching provisions, this portion of SECURE 2.0 would go into effect in 2023.

Expansion to Long-term Part-time Employees
The SECURE Act already expanded 401(k) eligibility to part-time employees who are with their employer for three consecutive years, with at least 500 hours of service. SECURE 2.0 takes this qualification a step further and decreases the eligibility period to two years. However, anything pre-2021 is disregarded for vesting (similar to what is currently in place). As a result, the first time these long-term part-time employees would be eligible would be in 2023.

Putting It All Together
While SECURE 2.0 is poised to bring exciting changes, it still has to go through the Senate, which has been making its own similar bill but has been moving slower than the House on its approval. It may still be some time before SECURE 2.0, or a similar version of it, makes it to President Biden's desk.

If you have any questions please contact any of our professionals at Frankel Zacharia, LLC, 402.496.9100.