Key Takeaways from SECURE Act 2.0

SECURE Act 2.0 of 2022 makes many changes to 401(k) plans. Overall, these changes enhance the 401(k) experience for millions of participants. Features such as matching student loan payments, emergency savings accounts and Saver's Match (formerly credit) contributions will help middle- and low-income participants augment their retirement savings and, ultimately, their retirement security. In addition, plan sponsors are given additional flexibility in making plan corrections and increased tax credits for startup plans, among other enhancements.

That said, SECURE Act 2.0 is an enormous piece of legislation, and this paper makes no attempt to cover all retirement plan provisions; rather, we opine on several key elements we feel are the most impactful to the 401(k) environment overall.

Student Loan Matching

Plan sponsors are permitted to match certain student loan payments. This will be a popular feature for plan sponsors with employees carrying student loan debt. Employees receive matching contributions based on student loan payments as though the loan payments were plan deferrals. This feature will likely be popular among participants, and plan sponsors will likely use it as a hiring and retention strategy.

Emergency Savings Accounts

Plans can permit non-highly compensated employees to contribute up to $2,500 into an emergency savings account within the plan. Employees may access the emergency savings accounts periodically. The emergency savings account contributions are considered a type of Roth contribution.

The emergency savings account feature has the potential to enhance the financial wellness of participants and their families. In addition, these features may ultimately reduce hardship disbursements and even plan loans.

Saver's Match Contributions

The Saver’s Match provision allows low- and middle-income plan participants who were previously eligible for the Federal Saver’s Credit to have federal matching contributions deposited directly into a 401(k) as an additional contribution source.

The Saver’s Match contribution allows participants to augment retirement accumulations rather than spend an income tax refund. This provision can enhance retirement accumulations for those who, likely, need the most help. This feature will increase the complexity of plan operations with additional data feeds and financial linkages between the plan and federal entities

Treatment of Matching and Other Employer Contributions as Roth Amounts

Effectively immediately, this feature permits participants to treat matching and other employer contributions as Roth contributions.

This provision will be popular among higher-income participants with large balances in qualified arrangements pursuing a Roth strategy. Clearly, this provision will be a challenge from a recordkeeping perspective, but our view is the provision will rapidly gain popularity once the tax community becomes facile with its implications and opportunities.

Less Stringent Controlled Group Rules

Businesses under common ownership or control are subject to the controlled group rules. The controlled group rules require additional, often complex, testing and aggregation and, frequently, restricts a plan sponsor’s flexibility with respect to plan contributions and increases plan costs.

SECURE Act 2.0 relaxes certain controlled group rules, particularly for smaller family-owned businesses, by reforming the family attribution rules for ownership. This provision provides more flexibility and planning opportunities for small business owners.

These enhancements come with a price. Many features will increase the complexity of 401(k) plans, requiring additional effort on plan sponsors and service providers to ensure the plan is operated correctly.

Now more than ever, plan sponsors should turn to their partners (i.e. advisors, recordkeepers, TPAs) to help navigate the current environment and decide what is most appropriate for their employees.

Source: Retirement Learning Center

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