

# Legislative Hot Topics

An overview of several legislative changes to retirement savings plans under consideration by Congress. *Last updated December 29, 2021*

# This Course Will Cover

1. An overview of legislative proposals under consideration by congress
2. Impact of the proposed legislation on plan sponsors
3. Impact of the proposed legislation on plan participants

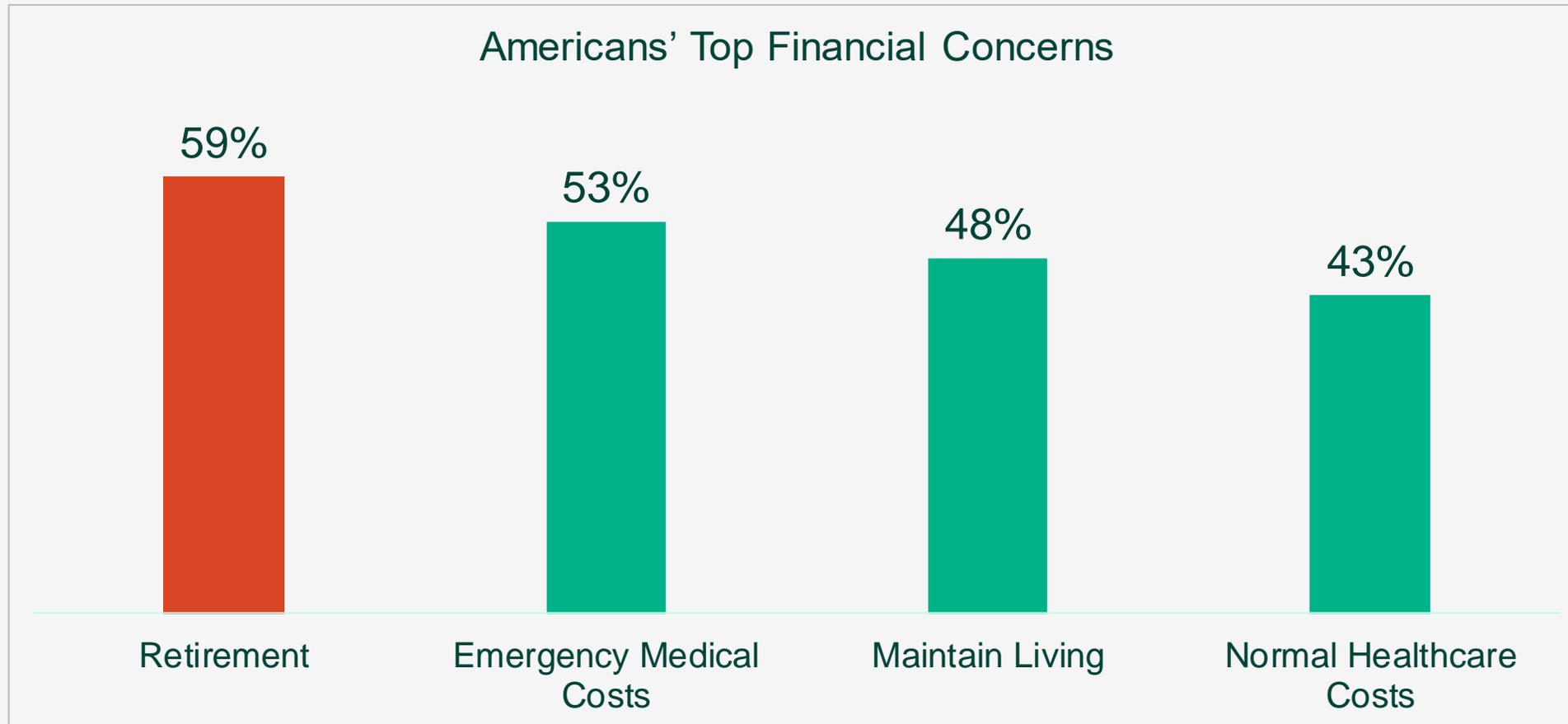
# Legislation Under Consideration by Congress

1. Automatic Retirement Plan Proposal
2. Securing a Strong Retirement Act of 2021 (aka SECURE Act 2.0)
3. Retirement Security & Savings Act

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# Legislative Context

# Retirement Savings is Top Financial Concern for Americans



Source: 2020 Gallup Economy and Personal Finance Survey

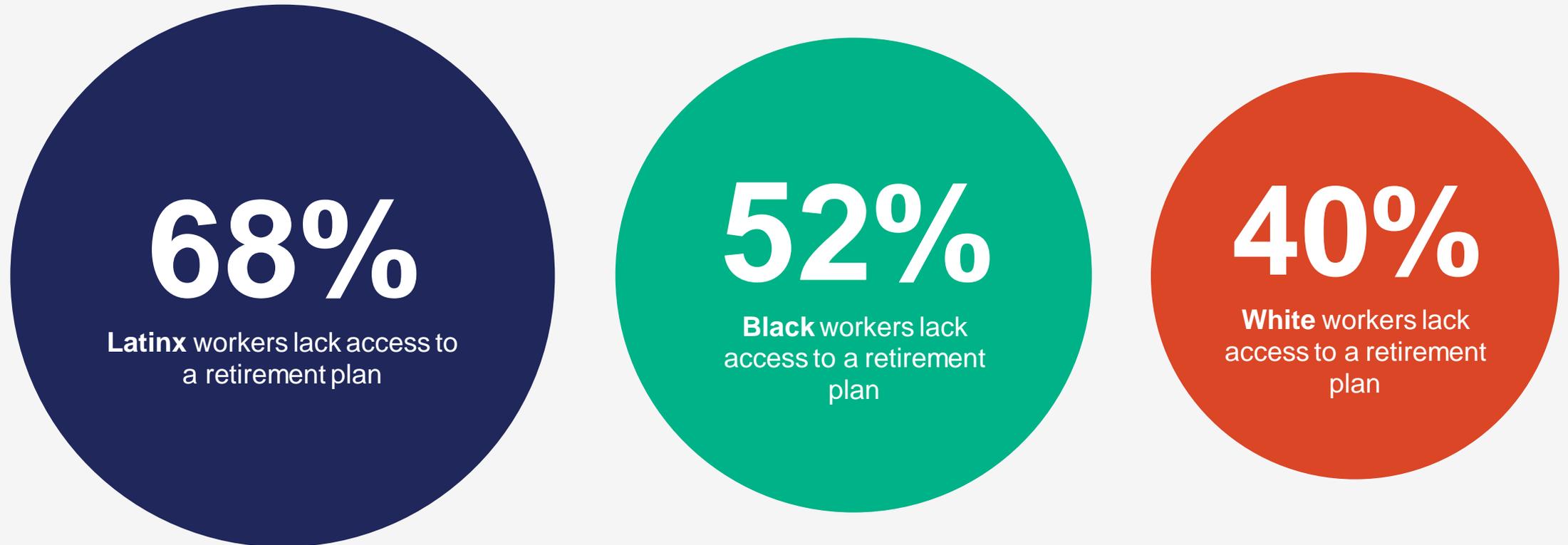
# Employees Are 12X *More* Likely to Save with a Workplace Retirement Plan



Employees are more likely to save in a workplace plan than on their own because:

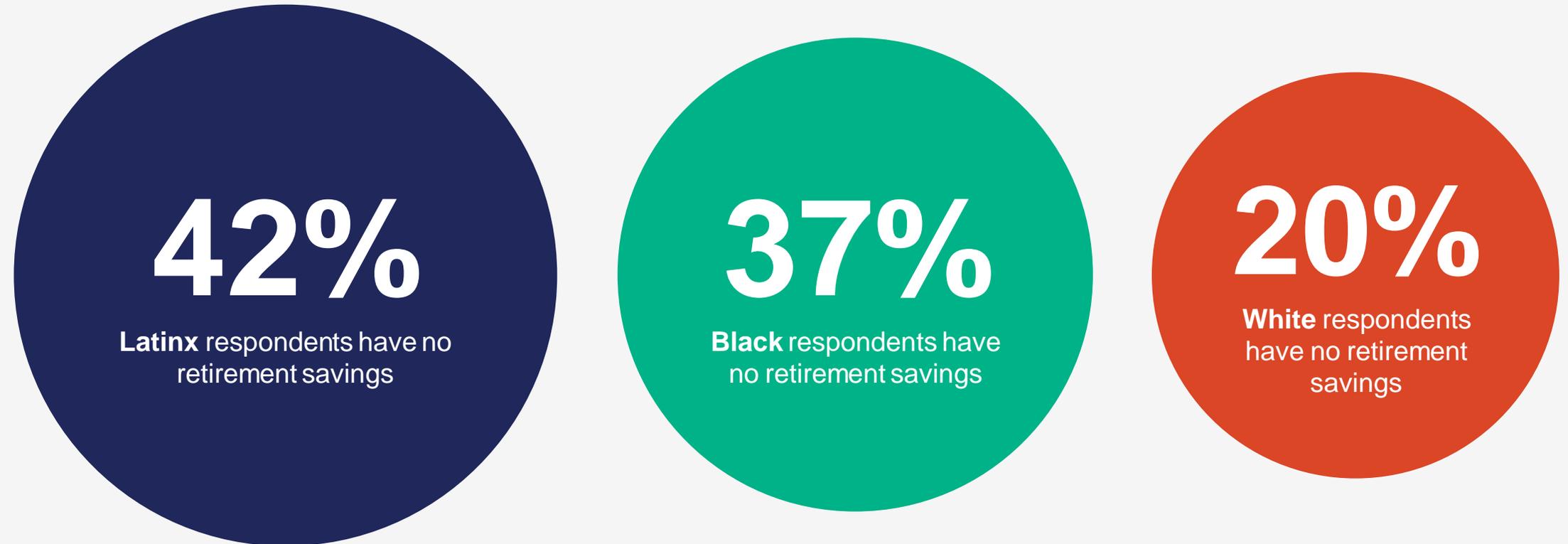
- Matching employer contributions
- Convenience of a payroll deduction
- Automatic enrollment in the plan

# A Large Percentage of Americans Lack Access to a Workplace Retirement Plan



Source: “How Can Policymakers Close the Racial Gap in Retirement Security?”, Urban Institute, October 2020

# Over 1/3 of Latinx and Black Americans Have No Retirement Savings



Source: "Opinion of Americans on state of their retirement savings 2020, by ethnicity" Statista Research Department, June 2021

# Objectives of the Legislation Under Consideration by Congress

1. Increase access to a workplace retirement savings plans (Automatic Retirement Plan Proposal)
2. Make saving for retirement easier for workers (Automatic Retirement Plan Proposal)
3. Make it easier for small businesses to start and maintain a retirement plan (SECURE Act 2.0)
4. Make it easier for workers and employers to contribute more to retirement (Retirement Security & Savings Act)

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# Automatic Retirement Plan Proposal

# Automatic Retirement Plan Proposal Key Provisions

The Automatic Retirement Plan Act will help close the retirement savings gap by making saving for retirement automatic:

1. Requires all employers with >5 employees to maintain an employee-sponsored retirement savings plan by 2023
2. Enacts automatic enrollment of employees in savings plans at 6% of salary
3. Replaces current Saver's Credit with a 50% government match up to \$1,000 per year
4. Makes changes to the Start-Up Credit to incent auto-enrollment plan features

# Auto-enrollment at 6% Contribution Rate

1. Creates a new type of deferral-only Safe Harbor 401(k) plan
2. Employees are automatically enrolled
3. Is NOT subject to nondiscrimination testing
4. Enacts automatic enrollment of employees in savings plans at 6% of salary — automatically increasing 1% a year until it reaches 10% of salary
5. May also enable more highly compensated employees to max out their personal deferral

# 50% Government Match

1. Replaces the current Saver's Credit for low and middle income taxpayers who contribute to a retirement account
2. 50% government match up to \$1,000 a year
3. Available to couples with income up to \$50,000 with match phased out over the next \$20,000 of income
4. Match would be claimed on the individual tax form and deposited directly to the worker's 401(k) or IRA.
5. Over 82 Million American workers eligible.

# Changes to Employer Start-up Credit

1. Start-up credit only available to auto-enrolled plans
2. Current \$5,000 401(k) start-up credit for new plans increased to 100% of plan costs for employers with >26 employees
3. Increases credit to 5 years for all employers
4. Deferral-only 401(k) gets \$1,000 credit for three years regardless of expenses and \$500 for 4<sup>th</sup> year
5. Auto-IRA gets \$500 credit for four years

# Automatic Retirement Plan Act Proposal Implications

## Employer

- Potential to increase costs for some employers
- Responsible for implementing a new plan and ongoing plan administration

## Employees

- Increased access to retirement plans
- Increased participation rates
- Increased savings rate

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# SECURE Act 2.0

# SECURE ACT 2.0 Key Provisions

The SECURE ACT 2.0 will help close the retirement savings gap by making it even easier for small businesses to start and maintain retirement savings plans:

1. Increases the small employer pension plan start-up credit to cover 100% of the cost to implement a 401(k) plan for the first three years.
2. Creates a new credit that offsets up to \$1,000 of employer contributions for each participating employee.
3. Revises part-time and long-term worker definition.
4. Creates “lost and found” program for orphaned plan balances.

# Key Highlights for Plan Participants

1. IRA catch-up contribution limit indexed to inflation.
2. Beginning 2023, catch up contribution increased to \$10K for ages 62,63, 64. (\$5K for SIMPLE).
3. Updated beginning dates for RMDS. Age 73 beginning in 2027. Age 75 beginning in 2033.
4. Student Loan Matching Program-Allows employers to make matching contributions to an employee's retirement plan based on the employee's student loan payments. (Sec 109)

# Key Highlights for Roth Plans

1. Beginning in 2022, SIMPLE and SEPs are permitted to be designated as Roth IRAs. (Sec 601)
2. Beginning in 2022, Catch up contributions required to be Roth contributions. (Does not apply to SIMPLE or SEP) (Sec 603)
3. Optional Roth treatment of employer matching contributions. (Sec 604)
  - a) Employer may permit an employee to designate employer matching contributions as Roth.
  - b) Applies to contributions made after date of enactment.

# Key Highlights for Plan Administration

1. Correction Safe Harbor (9 1/2 months) for employee elective deferral failures. (Sec 113)
2. New Long-term Part-time worker definition beginning 2023. (Sec 114)
  - a) 500 hours for TWO consecutive years.
  - b) Prior service for vesting does not apply.
3. EPCRS Self Correction Program (Sec 307)
  - a) Allows for eligible inadvertent compliance failures to be self-corrected.
  - b) Allows plan loan errors to be self-corrected under EPCRS and DOL's Voluntary Fiduciary Correction Program (VFCP).
4. Paper statement mandate requires at least one quarterly statement to be delivered on paper. (Sec 313)

# Key Highlights for Plan Administration

## 5. Retirement Savings Lost and Found Program (Sec 306)

- a) Requires PBGC to update its existing online database of lost accounts to include the unclaimed accounts of all former employees work \$6,000 or less.
- b) Employers are allowed to transfer to PBHC the retirement accounts of former employees with a balance of <\$1,000, to be invested in U.S. Treasury securities.

# Key Highlights for Employers

1. Increases the small employer pension plan start-up credit to cover 100% of the cost to implement a 401(k) plan for the first three years. (Sec 110)
2. Creates a new credit that offsets up to \$1,000 of employer contributions for each participating employee. (Sec 112)
3. Discretionary amendments that increase benefits allowed for previous year up until employer tax return due date. (Sec 319)
4. Retroactive first year elective deferrals for sole proprietors. (Sec 320)

# Key Highlights for 403(b) Plans

1. 403(b)s allowed to invest in CITs. (Sec 104)
2. For 403(b) PEPs, Treasury required to provide fiduciary education and outreach to tax-exempt employers. (Sec 108)
3. Hardship rules for 403(b) plans beginning in 2022. (Sec 602)
  - a) Conforms the existing hardship distribution rules for 401(k)s to 403(b)s.
  - b) QNECS, QMACs, plus earnings in 403(b)s can now be distributed.

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## Retirement Security and Savings Act

# Retirement Security and Savings Act Key Provisions

This wide-ranging bill includes more than 50 provisions designed to strengthen Americans' retirement security:

1. Provides a new incentive for employers to offer a more generous automatic enrollment plan and receive a safe harbor from costly retirement plan rules.
2. Increases the catch-up contribution limits from \$6,000 to \$10,000 for individuals over age 60.
3. Allows employers to make a matching contribution to an employee's retirement account based on their student loan payment.
4. Establishes a new three-year, \$500 per-year tax credit for small businesses that automatically re-enroll plan participants at least once every three years.
5. Increases the age for required minimum distributions (RMD) from age 72 to age 75 by 2032.

# Questions?

Contact us with your questions at  
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