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SECURE Act 2.0

How the new legislation might benefit stakeholders across the retirement value chain.

After several years of debate in Congress, the Setting Every Community Up for Retirement Enhancement Act 2.0 (SECURE Act 2.0) became law in December 2022. SECURE Act 2.0 includes a host of provisions designed to help working Americans close the retirement savings gap, projected to reach $137 trillion by 2050.[1]

Currently, less than two-thirds of American workers have access to a workplace retirement plan.[2] For the rest, the lack of access leads to a lack of savings. And 64 percent of those with access will have less than $10,000 saved for retirement at age 65.[3] SECURE Act 2.0 is a timely and welcome measure that is likely to increase the number of plans, increase participant enrollment, and provide benefits across the retirement value chain. Here's how different stakeholders might realize the benefits.

EMPLOYEES

Americans are working longer4—and SECURE Act 2.0 reflects this new reality. In addition, it alleviates some pressure on older Americans by pushing the required minimum distribution (RMD) age for retirement accounts to 73 (up from 72), and, over time, up to age 75. This equates to more time for participants to accumulate more assets – and that will help to close the savings gap.

The legislation also reflects broader changes in worker behavior. Millions of Americans today rely on part-time jobs to supplement income. Good news for these workers, as SECURE Act 2.0 lowers the threshold for long-term, part-time employees to participate in workplace retirement plans sooner.

NEW PARTICIPANT BENEFITS

Additional benefits of the legislation, namely tax reliefs and penalty-free withdrawals, will allow participants greater flexibility to cover upcoming life events.

- Participants in Qualified Defined Contribution, IRAs and 529 Savings Plans can recognize new penalty-free-in-service withdrawals.
- For qualified births and adoptions, participants can take a distribution of up to $5,000 within the first year, and they are given longer time periods to repay such withdrawals. The one-year period starts on the date a child is born or legally adopted.
- Student loans can now be paid by using employer match money. This will go a long way toward getting participants with student loans to enroll in plans.

Taken together, these simple provisions may help unburden both an aging and savings-anemic workforce.

Alongside the new legislation, retirement providers and advisors are creating new offerings that leverage technology to help former participants in plans keep more of what they saved. Many plans now offer former employees access to the education, advice, and institutional investment management that current employees benefit from, regardless of account size. These offerings are designed to reduce "uncashed" distributions among former plan participants, and to help former participants make more informed decisions on managing toward their retirement goals.

SMALL BUSINESSES

SECURE Act 2.0 will have a meaningful impact on savings rates among employees of very small businesses, i.e., firms with fewer than 50 employees. Consider that while most larger firms have workplace retirement plans, only 24 percent of small businesses offer one.[5]

Two key provisions will especially help to maximize small business participation. First, small businesses will enjoy up to 5,000 in annual tax credits ($15,000 maximum over three years) to help offset costs associated with establishing a defined contribution plan. For small businesses, this tax credit could make a big difference.

In addition, SECURE Act 2.0 allows employer match to be directed to pay down student loans. This will help those with loans enroll in plans sooner so they can pay down student loans while still being invested in their retirement plan. The ACT also legislates auto enrollment PLUS auto investment starting at 1% and increasing until max plan allows.This will certainly help remove some of the inertia we see with participant enrollment and investment.

HOLISTIC FINANCIAL ADVISORS

Because SECURE Act 2.0 will likely impact very small businesses more than others, financial advisors who serve these firms stand to benefit as well. Typically, smaller firms and startups require holistic financial planners who operate almost like benefits consultants. Among other things, these advisors help small businesses identify credit opportunities, plan for various stages of growth and establish retirement plans.

Expect these advisors to now help small businesses navigate the new tax incentives to create new plans. Advisors can explain available options and help existing retail clients who are also business owners choose the best plan for their employees.

ANNUITIES

Most DC plans do not offer annuity options. Now, though, the SECURE Act and SECURE Act 2.0 create a fiduciary 'safe harbor' for annuitized income strategies, significantly lowering the compliance burden. Plan sponsors are no longer required to conduct cost-benefit analyses and may select annuity options based on disclosures provided by insurance companies themselves.

These changes reduce risk, making it easier for employers to offer more options for employees transitioning from accumulation toward decumulation. Of course, that's great news for employees, but it also creates enormous opportunity for insurance providers to simplify products and reach new markets.

We expect several new annuity options to enter the market, as insurance companies compete to grab a slice of the retirement pie. Plus, participants are looking for Lifetime Income solutions.

WHAT'S NEXT FOR RETIREMENT?

For now, it's too soon to predict long-term impact on the US retirement shortfall, but SECURE Act 2.0 is a major step to in that direction. There's no doubt that the legislation benefits those throughout the retirement value chain. Americans now have more opportunity to save longer. And small businesses will get the support they need to expand access.

1. https://www.weforum.org/whitepapers/investing-in-and-for-our-future
2. https://data.bls.gov/timeseries/NBU12000000000000028312
3. https://www.pwc.com/us/en/industries/financial-services/library/retirement-in-america.html
4. https://www.aei.org/research-products/report/the-average-us-retirement-age-increased-over-the-past-30-years/
5. https://www.prnewswire.com/news-releases/survey-small-business-owners-still-resistant-to-starting-a-401k-plan-only-one-in-four-currently-offer-as-an-employee-benefit-301544021.html