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The SECURE Act 2.0: Making It Easier to Save for Retirement

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Signed into law in December 2019, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) made it easier for businesses to offer retirement plans and for individuals to save for retirement.

The law significantly altered the retirement landscape, and Congress is now considering legislation that would bolster retirement security even further.

Nicknamed the SECURE Act 2.0, the Securing a Strong Retirement Act of 2021 includes a number of important provisions for retirement plan sponsors and savers. These include requiring retirement plan sponsors to automatically enroll participants upon becoming eligible, raising the required minimum distribution (RMD) age of retirement account holders from 72 to 75 over time, expanding Roth contribution availability, and enhancing catch-up contributions, to name a few. In addition, employers would be permitted to make matching contributions to retirement plans on qualified student loan payments — a highly attractive feature for younger employees in particular.

The following table summarizes the existing law and the proposed changes in the SECURE Act 2.0.

Securing a Strong Retirement Act of 2021 (aka SECURE Act 2.0)		
Area	**Current Law**	**Proposed**
Required Minimum Distributions	SECURE Act increased RMD age from 70 1/2 to age 72 after December 31, 2019.	Increase age to begin RMDs to age 75 over time. Age 72 starting on Jan. 1, 2022, then 74 on Jan. 1, 2029 and then to age 75 of Jan. 1, 2032.
	Penalty imposed upon the participant for failing to make a mandatory withdrawal is 50% on any missed RMDs.	Reduce penalty to 25%. If a failure is in an IRA, penalty is reduced to 10% if the error is corrected in a timely manner.
Employer Auto-Enrollment	To encourage employers to adopt an automatic enrollment feature for a 401(k) plan, 403(b) plan or SIMPLE IRA plan, the SECURE Act created a new tax credit for employers that established new plans that included automatic enrollment or converted an existing plan to an automatic enrollment design.	Require newly established 401(k), 403(b) and SIMPLE plans to automatically enroll eligible workers at a savings rate of 3% of their salary. That contribution increases, unless participant opts out, by 1 percentage point each year until it reaches 10%. Exception for businesses with fewer than 10 employees, which opened fewer than 3 years ago and retirement plans for churches and government agencies. The requirement will not apply to existing 401(k), 403(b) or SIMPLE plans.

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Permit Small Financial Incentives for Contribution to a Retirement Account	Employers are currently prohibited from providing financial incentives to encourage workers to contribute to retirement plans.	Allow employers to provide small financial incentives to lure employees to save for retirement. (Example: gift cards)
Bigger Employer Sponsored Plan Catch-Up Contributions	Currently, age 50 catch-up of $6,500 for 401(k) and 403(b) plans. For a SIMPLE IRA, the catch-up is $3,000.	Workers age 62, 63 or 64 would be able to contribute a catch-up amount of $10,000 to a 401(k) or 403(b) and participants in SIMPLE IRAs could contribute an additional $5,000. Existing catch-up for over age 50 would still remain. Catch-up amounts would be indexed for inflation beginning in 2023.
IRA Catch-Up limit	Currently, age 50 catch-up of $1,000, not indexed for COLA.	Age 50 catch-up limit would be indexed for inflation starting in 2022.
Additional Employer Matching Funds	Employers cannot currently match employee student loan repayments with a contribution to an employee's 401(k) plan, 403(b) plan, SIMPLE IRA or governmental 457(b) plan.	Allow employers to make matching contributions to workers' retirement accounts based on workers' own student loan repayments. Effectively allowing the employee to still save for retirement at a time when they might not otherwise be saving for retirement due to student loan debt.
Old Retirement Accounts	Currently, it is difficult to find and receive benefits from a company that has moved, changed its name, or merged with a different company. Plans also have difficulty finding former employees that have changed their name or address.	Create a national online lost-and-found database for retirement plans, run by the Pension Benefit Guarantee Corporation.
Enhance Roth Contributions	401(k)s, 403(b)s and 457(b)s can accept Roth contributions. Simplified Employee Pension (SEP) plans and SIMPLE IRAs may not be designated as Roth.	Expand Roth contributions to SIMPLE and SEP IRAs.
	Employer matching funds on Roth Contributions are made on a pre-tax basis.	Employees could opt for employer matching to 401(k), 403(b) and 457(b) plans on a Roth basis.
Part-Time Workers Retirement Plan Eligibility	SECURE Act allowed long-term part-time employees who work at least 500 hours a year for 3 consecutive years to contribute to a retirement plan.	Allows long-term, part-time workers to defer earlier by reducing the 3-year rule to 2 years.
403(b) Plan Investment Options	Currently, 403(b) plans can only invest in annuity contracts and mutual funds.	Would allow 403(b) custodial accounts to invest in collective investment trusts, if certain conditions are met.
Tax Credits for Small Businesses	Currently, small businesses with up to 50 workers can receive a tax credit for three years to offset start-up costs for setting up retirement plans. The credit equals 50% of administrative costs, up to an annual maximum of $5,000.	The Act would increase the credit to 100% of expenses for employers with up to 50 employees. Additional credit for defined contribution plans equal to the amount contributed by the employer on behalf of employees, up to $1,000 per employee. The full credit would be available to employers with 50 or fewer employees, phased out for employers with between 51 and 100 employees. Full tax credit in the first and second years, 75% of the credit in the third year, 50% of the credit in the fourth year, and 25% of the credit in the fifth year. No credit for employer contributions after the fifth year.
	Tax credit for joining a multi-employer plan if the plan has been around for less than three years.	Small businesses could also receive a tax credit for joining a multi-employer plan, no matter how long the plan has existed.

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Saver's Credit	Current individual tax credit available for contributions made to retirement plans or IRAs, based upon individual income level. Max credit of $1,000 per person.	Simplify the Saver's Credit with a single tax credit rate equal to 50% of the contribution amount. Increase the maximum credit to $1,500 per person and make credit available to taxpayers with higher income. The credit would be adjusted for inflation each year.
QLAC (Qualified Longevity Annuity Contracts)	Currently, QLAC premium cannot exceed the lesser of (a) 25% of aggregated Traditional IRA account values as of 12/31 of the prior year or (b) $135,000.	Remove the 25% cap. Possibility of seeing an increase in the QLAC premium limit to $200,000.
Qualified Charitable Distributions (QCDs)	Taxpayers over 70 1/2 can give up to $100,000 to charity directly from their IRA without including that distribution as taxable income.	Expand the QCD provision to also include distributions from qualified retirement plans.

Nothing is ever certain in Washington, and it's expected that there will be changes or additions to the legislation as it makes its way through Congress. However, the original SECURE Act had strong bipartisan backing, and many observers believe that the new legislation will pass either this year or in 2022. We will keep you informed on further developments and the progress of this important legislation as it moves forward.

For the latest on tax proposals and important planning steps you can take now, contact your Key Private Bank Advisor.

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