

Betterment's SECURE 2.0 employer checklist:

What 401(k) Plan Sponsors should know



The Setting Every Community Up for Retirement Enhancement (“SECURE Act”) 2.0 Act of 2022 was signed into law on December 29, 2022 as part of the Consolidated Appropriations Act, 2023. The second iteration of the SECURE Act puts forth legislation to improve retirement security for thousands of Americans, offering measures to support employees and their retirement goals, and aiming to make it easier for employers to support their teams.

As with any complicated piece of legislation, you’re probably asking yourself: What exactly does this mean for me and my business? From matching student debt payments to default enrollments to tax credits, our experts at Betterment at Work broke down the provisions that are likely to affect you and your employees.

Please note that some of these provisions, whether required or optional, will require plan amendments. However, plans can adopt these provisions without executing a formal plan amendment until the formal amendment requirement date on 12/31/25.

What the SECURE Act 2.0 means for 401(k) plans:

REQUIRED

Automatic enrollment and escalation

Effective date: January 1, 2025.

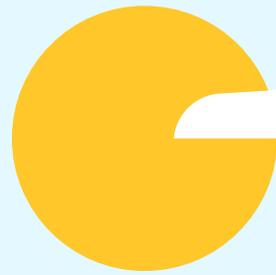
(For plans with an initial effective date on or after December 29, 2022)

The breakdown

- Requires plans to automatically enroll employees at a default rate between 3% and 10%.
- Requires 401(k)s to automatically escalate contributions at 1% per year to at least 10% (but no more than 15%).
- Must offer participants who are automatically enrolled, the ability to request a withdrawal of their contributions within 90 days of their first contribution.
- As always, employees can change their contribution rate or opt out of the plan at any time.
- Plans effective prior to December 29, 2022, are grandfathered into exemption. Businesses in existence for less than 3 years, as well as those with 10 or fewer employees, are exempt.

PRO-TIP

Even though the Act doesn’t require that the features be added until January 1, 2025, you may want to get ahead of the curve and implement these provisions now. For plans effective prior to December 29, 2022, it’s still worth considering implementing auto-enrollment and auto-escalation on your plan sooner to show potential employees that you’re a company that cares.



Enhanced tax credits for small employer plans

Effective date: December 29, 2022

The breakdown

- Provides businesses with fewer than 100 employees a three-year tax credit for up to 50% of plan start-up costs.
- Increases the tax credit to up to 100% of the plan start-up costs for employers with 50 or fewer employees.
- Offers a new tax credit to employers with 50 or fewer employees, encouraging direct contributions to employees, as much as \$1,000 per participating employee with wages less than \$100,000 (indexed annually). The credit also applies to employers with 51-100 participants but the amount of the credit for this group steps down based on income.

PRO-TIP

If you're eligible and are looking to start a new 401(k) plan in the next year, you could make the most of these credits and tax savings by selecting your plan soon. [We can help!](#)

Replacing a SIMPLE IRA plan with a Safe Harbor 401(k) is a little easier now

Effective date: January 1, 2024

PRO-TIP

The new rules allow for a SIMPLE IRA plan to be replaced with a Safe Harbor 401(k) plan at any time during the year if certain criteria are met. This also waives the 2 year rollover limitation currently in place.

REQUIRED

Increased age for required minimum distributions (RMDs)

Effective date: January 1, 2023

The breakdown

- Increases the RMD age to 73 in 2023.
- The RMD age will continue to increase to 74 in 2029 and 75 in 2033.
- The Act also reduces the failure to take RMD penalty from 50% to 25%, or 10% if the shortfall is corrected within 2 years. As a final bonus, the Act eliminates Roth 401(k) RMD requirements in 2024.

PRO-TIP

These changes will affect older Americans and their retirement plans sooner. Educate them on these changes, and consider offering sessions with a financial advisor to make sure they're on track for retirement. [We can help!](#)

OPTIONAL

Higher catch-up limits

Effective date: January 1, 2025

The breakdown

- Increases catch-up 401(k) contribution limits to \$10,000 (up from \$7,500) for participants ages 60-63.
- Catch-up contributions allow older Americans to make increased contributions to their retirement accounts.

This will affect you if...

- You have team members nearing retirement. Encourage them to take advantage of these catch-up opportunities if they can.

REQUIRED

Certain catch-up contributions must be made in Roth

Effective date: January 1, 2024

The breakdown

- Currently, participants can choose whether to contribute pre-tax or Roth as their catch-up contributions.
- The new bill requires that catch-up contributions for anyone who made more than \$145,000 (indexed) in the prior year be made in Roth moving forward.

PRO-TIP

This provision provides less tax diversification for some participants but will generate more tax revenue to help offset the cost of some of the other provisions in the bill.

OPTIONAL

Employers can offer a 401(k) match on student loans

Effective date: January 1, 2024

The breakdown

- Qualified student loan repayments could count as elective deferrals and qualify for 401(k) matching contributions from their employer.
- Employees who take advantage of this would be compliance tested separately.

This will affect you if...

- You have millennial and Gen-Z employees, who are often overburdened by student debt, which can prevent them from saving for retirement (and earning valuable matching contributions!). By offering to match student loan contributions into a 401(k), employees can pay down their loans while also taking advantage of their 401(k) match. [We can help!](#)



OPTIONAL

Ability for employers to contribute employer contributions in Roth

Effective date: December 29, 2022

The breakdown

- Employers can offer employer contributions to participants on a Roth basis.
- Immediate vesting is required on these Roth contributions.
- Roth employer contributions could provide beneficial tax diversification benefits to employees (currently, all employer matching contributions must be made on a pre-tax basis).

PRO-TIP

Giving your employees flexibility in how they choose to diversify their savings can sweeten your financial wellness program. Have questions about tax incentives? [We're here to help.](#)

OPTIONAL

Additional incentives for employees to contribute

Effective date: December 29, 2022

The breakdown

- The only way an employer can currently incentivize employees to contribute to their 401(k) plan is through an employer match.
- The Act allows employers to now offer additional incentives, such as a small gift card, to employees who contribute to their 401(k).

PRO-TIP

In our 2022 survey, 54% of employees polled said that better benefits at a new job would entice them to leave their current company. Expanding your financial wellness benefits can help you attract, retain, and engage employees. [Read more.](#)

REQUIRED

Period of service requirements for long-term, part-time workers reduced to 2 years

Effective date: January 1, 2025

The breakdown

- Under this legislation, employers must now allow long-term, part-time workers to participate in the 401(k) plan after 2 consecutive years if they work 500-999 hours.
- Plans with the normal requirement of 1,000 hours in 12 months for part-time employees must allow participants who meet the requirements enter the plan.

This will affect you if...

- You have long term part-time workers. This population, which has not historically been able to take advantage of 401(k) plans at the same rate as full-time workers, will now be eligible and incentivized to stay with their employer longer in order to take advantage of the benefit.

OPTIONAL

Emergency savings account within 401(k) plan

Effective date: January 1, 2024

The breakdown

- Employers can offer a sidecar account within participant 401(k) accounts that act similarly to savings accounts. There are some requirements:
 - Funds must be invested in Roth dollars and automatic enrollment can be applied.
 - Contribution limit is \$2,500 (indexed) and is included in the overall deferral limit.
 - Funds must be invested in a cash or principal reservation vehicle.
 - Withdrawal must be available at least once per month, with 4 annual withdrawals fee free.

PRO-TIP

This may encourage more participants to start saving for their retirement, knowing that they have easier access to their money should they need it.

OPTIONAL

Force out limit increased from \$5,000 to \$7,000

Effective date: January 1, 2024

The breakdown

- Plans may optionally require that terminated participants with small balances be “forced out” of the plan. Today a small balance is defined as under \$5,000, and the Act increases that to under \$7,000.

This will affect you if...

- Your plan has a force out provision and you want to raise your force out amount. Please note: this will require a plan amendment.
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OPTIONAL

New type of Safe Harbor 401(k) plan introduced

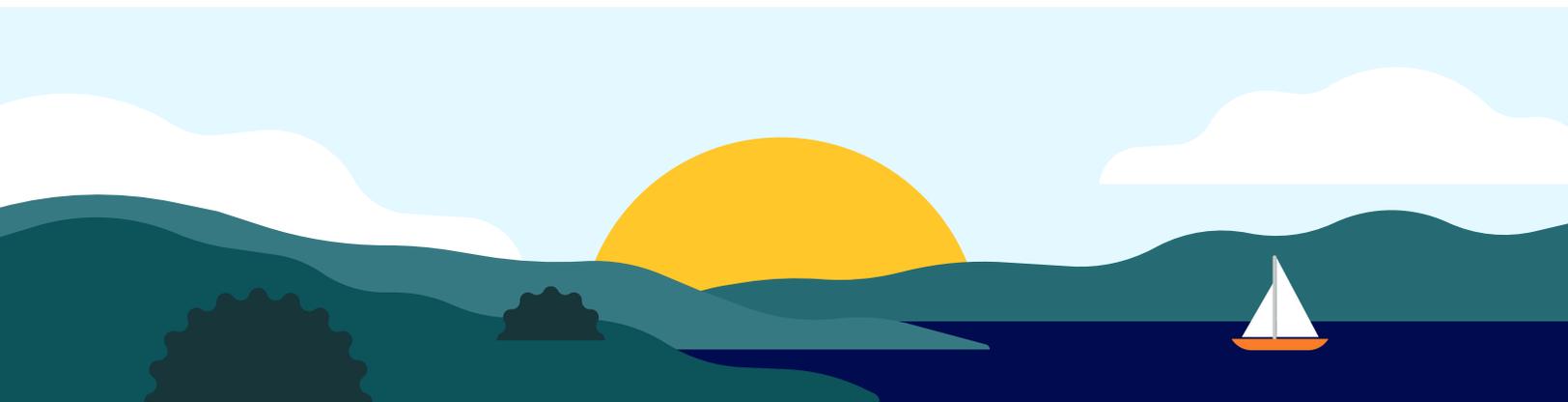
Effective date: January 1, 2024

The breakdown

- Employers will be able to establish a Safe Harbor plan with no employer contributions or compliance testing required. However, contribution limits for these plans will reflect that of an IRA.

PRO-TIP

Ultimately, this is quite similar to a SIMPLE IRA plan, but additional guidance regarding converting into a regular 401(k) plan may be announced.



Self certification of Safe Harbor hardship events

Effective date: January 1, 2023

The breakdown

- Employers can now rely on participants to self-certify that they have had a Safe Harbor event that constitutes a deemed hardship.

PRO-TIP

This will reduce some administrative work required of plan sponsors.

Penalty-free withdrawals in cases of domestic abuse

Effective date: January 1, 2024

The breakdown

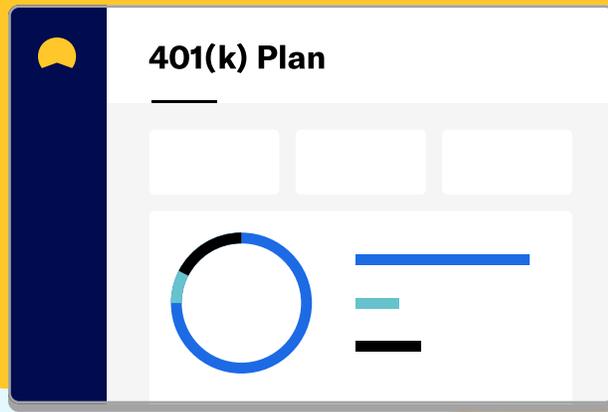
- Allows domestic abuse survivors to withdraw from their 401(k) (the lesser of \$10,000 or 50% 401(k) account), without being subject to the 10% early withdrawal penalty.
- Employees would also have the ability to pay the money back over 3 years.

This will affect you if...

- You employ women. While any person can be a victim of domestic abuse, the issue sadly disproportionately affects women; the [WHO reports](#) that 1 in 3 women has been a victim of domestic or sexual violence in their lifetime. This provision will give victims support they need in-the-moment, without penalty.

PRO-TIP

Make this offering clear to all employees, and especially highlight it during moments like Women's History Month and Domestic Violence Awareness Month.



Expansion of Employee Plans Compliance Resolution System (EPCRs)

Effective date: Generally effective January 1, 2024.

The breakdown

- Expands the current resolution system to allow for more self-corrected errors and exemptions from plan disqualification.

This will affect you if...

- You administer your own 401(k). Feeling burdened by some of these administrative tasks? Betterment's 3(16) and 3(38) fiduciary services can mean less work for you. [Get in touch.](#)

Plans can remove groups of employees from top-heavy testing

Effective date: January 1, 2024.

The breakdown

- Makes annual nondiscrimination testing easier by allowing plans to remove certain groups of employees from top-heavy testing. (This is already allowed on ADP, ACP, and coverage testing.)

This will affect you if...

- You have many highly compensated employees (HCEs). And, if you'd rather someone else handle your compliance testing, our 3(16) and 3(38) fiduciary services [can help.](#)

Eliminating unnecessary plan requirements for unenrolled participants

Effective date: January 1, 2023

The breakdown

- Eliminates certain notice requirements for all eligible plan participants.

This will affect you if...

- You're still using paper. As a tech-forward platform, we automatically send your participants all of the necessary information and notifications in regard to your plan. Plus, we offer the ability for your employees to go paperless—which is something most employees look for in 2023!
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Retirement savings lost and found database

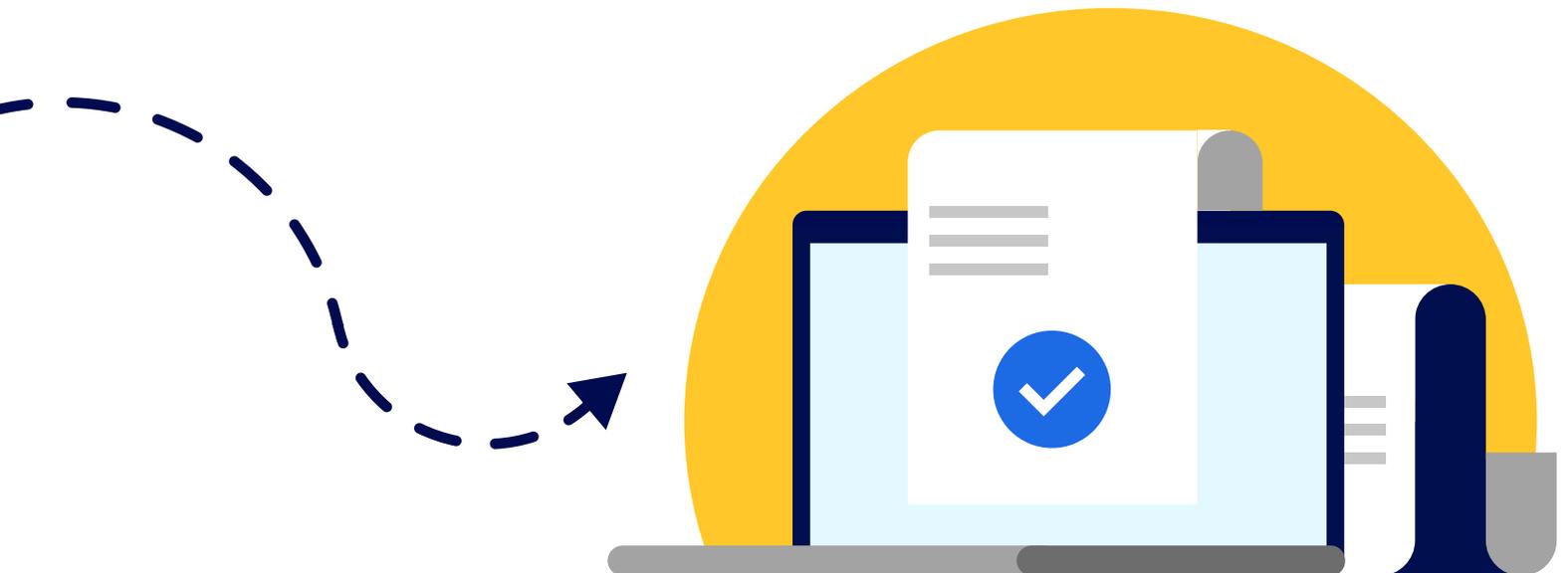
Effective date: Expected to be built by January 1, 2025

The breakdown

- Creates a national lost-and-found database online.
- Helps so-called "missing participants" reunite with 401(k) funds that are rightfully theirs.

This will affect you if...

- You're hiring a lot of new employees. When your new employees are offered a 401(k) by your company, they often set out on the (difficult) mission of tracking down their other 401(k)s and rolling them into their new one. [In fact](#), there are 24 million forgotten 401(k)s with \$1.35T in assets.



Betterment's take

The SECURE Act 2.0 will make great strides, but in some ways it's too little too late for the many middle-aged Americans approaching retirement and the millions of Americans who are not enrolled in employer-sponsored plans. States are, however, working to make up the difference with state auto-IRA plans, which aim to increase retirement security for employees who work for small businesses.

Every employee's life situation is unique, and their financial plan should be too. Betterment was built to help people set goals, give purpose to their money, and build peace of mind into their financial future, starting with their 401(k). Start building a better financial wellness solution for your team with a Betterment 401(k) today—don't wait for the SECURE 2.0 Act's provision deadlines, particularly amid the Great Resignation.

**Ready to get started or want to chat about the implications of SECURE 2.0?
Email us at 401k@betterment.com.**

Already a client? Your Betterment at Work team will continue to keep you informed regarding any developments. As always, you can reach out to plansupport@betterment.com with any questions.

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