BENEFITS | November 1, 2024

Plan Sponsors Weigh SECURE 2.0 Options

Implementation is still gaining steam for 2024 provisions such as offering additional emergency savings options and a match for student loan repayments.

Reported by BETH BRAVERMAN | *Art by* KLAUS KREMMERZ

One of the features that gives the SECURE 2.0 Act of 2022 so much potential to help employers improve retirement security for their plan participants is that it gives employers the ability to select from a range of optional features to better tailor their plan to meet the specific needs of their workforce.

"Historically, retirement plans have been somewhat siloed from other benefits, but now we're starting to bridge retirement plans into overall retirement readiness and financial security for employees," says Michael A. Webb, a senior manager of plan consulting at CAPTRUST. "It's a little bit of a different mindset, but, fortunately, I think plan sponsors are on board."

Some of the most popular optional benefits include retirement contributions that match student loan repayments, multiple emergency savings provisions and several ways to permit self-certified hardship withdrawals. While plan sponsors are interested in many of these provisions, uptake has started slowly.

"What I'm hearing from plan sponsors is a lot of them are playing wait-and-see and are waiting to hear from their recordkeeper on what they feel are the benefits and difficulties of implementing these programs," says Tim Rouse, executive director of the SPARK [Society of Professional Asset Managers and Recordkeepers] Institute.

The most popular optional benefit, according to a June survey conducted by Fidelity, was the increased catch-up contribution limit for participants age 60 to 63. Nearly 60% of plan sponsors said they were likely to introduce that option, which would allow workers in that age bracket to contribute up to either $10,000 or 150% of the catch-up limit (currently $7,500), whichever is greater, starting in 2025.

Leaning Into Student Loans

Many employers are also focused on matching student loan repayments, excited about the prospect of getting participants struggling with education debt into retirement plans earlier. SECURE 2.0 allows employers to match employees' student loan payments with a contribution to their retirement account.

"Participants tell us they can't do everything," says Elizabeth Thomas Dold, a principal in the Groom Law Group. "They can't pay their bills, repay their student debt and save for retirement. This takes that out of the equation."

While the rules allow for participants to self-certify their student loan payment, Dold says most employers are looking to third-party companies to verify those payments.

"This is real money from employers, and they don't want to give it away if someone is not making their student loan payments," she adds.

Multiple Emergency Savings Options

Another optional feature many employers are considering is an in-plan pension-linked emergency savings account, or PLESA, which allows participants making less than $150,000 to direct up to 3% of their compensation to a dedicated, principal-protected Roth account capped at $2,500, from which they can make penalty-free withdrawals as frequently as monthly.

"The benefit that we're all hoping for with the emergency savings provisions is that it encourages people to either start contributing or to contribute more, because it overcomes the fear of: 'I might not have money when I need it,'" says Aliya Robinson, managing legal counsel for legislative and regulatory affairs at T. Rowe Price. "But one of the concerns that we're having is that they start to view their retirement plan as more of a checking account than as a savings vehicle."

Plan sponsors may also be hesitant about the administrative burden of PLESA accounts, especially because SECURE 2.0 enabled another option to create emergency liquidity for participants. That provision, less complex and costly for plan sponsors, allows participants to take penalty-free $1,000 loans for emergencies up to once per year.

"More plan sponsors are leaning toward the easier emergency withdrawals option to test and then see how often it is used, before going to the more complex [PLESA] option," says Hutch Schafer, vice president of product development for Nationwide Financial. "Then, if there's more utilization, maybe they'll pivot toward [PLESA]."

Educating Participants

Plan sponsors using either emergency savings option should also work to ensure participants continue to think of their 401(k) as a long-term savings account, especially as it becomes easier to access the money they have saved there. That also applies to plan sponsors considering implementing self-certification for hardship withdrawals, another optional provision under SECURE 2.0.

"If it's that much easier to self-certify hardships, how do you monitor whether or not someone had a true hardship that requires access to their retirement account?" Schafer says. "The more they take out of their savings, the less they'll have at retirement age."

The self-certification option has proven popular, with 56% of plan sponsors telling Fidelity they are likely to adopt one or more of the hardship withdrawal options that allow it. Dold points out that participants will need to take advantage of any other options for accessing their funds (such as emergency withdrawals or a PLESA account) first before turning to the self-certified hardship options.

"The hardship withdrawals are more restrictive in terms of what you can use them for," Robinson says. "But for plan sponsors who have decided this is a feature that's necessary or good for their participants, this change can make the implementation process a little easier."

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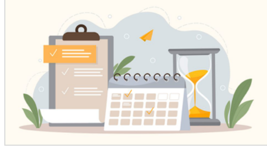

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The announcement comes with guidance on all the cost-of-living adjustments affecting limitations for pension plans and other retirement-related items for tax year 2025.

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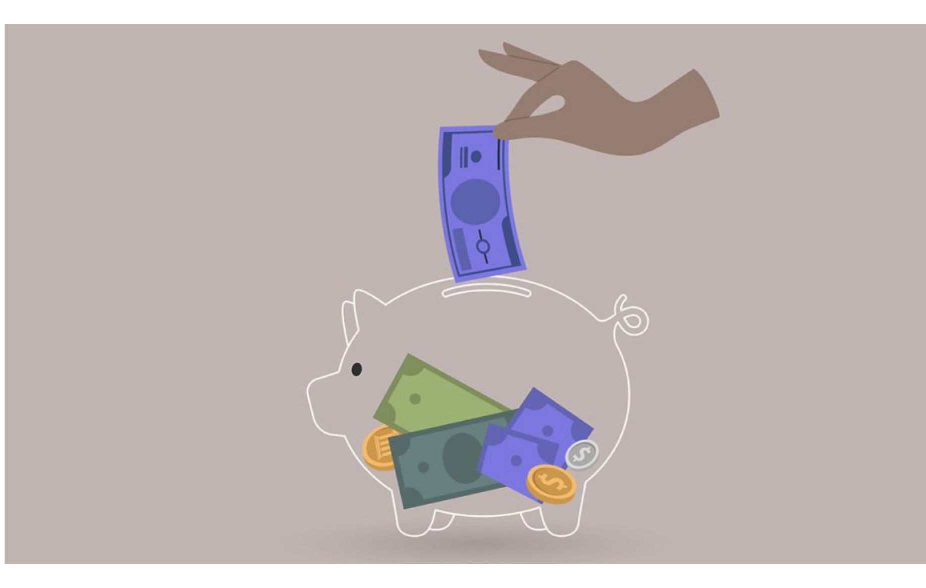

The IRS on Friday announced the annual contribution limits for qualified defined contribution plans and individual retirement accounts for the 2025 tax year.

Maximum Benefit/Contribution Limits for 2020 through 2025

The annual contribution limit for workers who participate in 401(k), 403(b) and most 457 plans, as well as the federal government's Thrift Savings Plan, will be increased to $23,500, up from $23,000 in 2024.

DC plan contribution limits grow in step with the inflation rate for each year's third quarter; this year's was 3.2%, rounded down to the nearest $500 increment.

Catch-up contributions for those 50 years and older and invested in DC plans will remain at $7,500, adding up to a total allowed annual contribution of $31,000 for qualifying DC plans in 2025.

The super catch-up contribution provision in the SECURE 2.0 Act of 2022 takes effect in 2025. It permits those aged 60 through 63 to contribute $11,250 instead of $7,500 in 2025, according to the IRS's update.

The annual IRA contribution limit will remain $7,000. The IRA catch-up contribution limit for individuals aged 50 and older will remain $1,000 for 2025, though the IRS noted that the catch-up was amended under the SECURE 2.0 Act of 2022 to include an annual cost-of-living adjustment.

The income eligibility ranges for IRAs and the Saver's Credit likewise increased for 2025.

Traditional IRAs

For single taxpayers in a workplace plan, the phase-out range for traditional IRAs will increase to between $79,000 and $89,000 from between $77,000 and $87,000. For married couples, the amount will increase to between $126,000 and $146,000, up from between $123,000 and $143,000.

For a traditional IRA contributor not covered by a workplace retirement plan and married to someone who is covered, the phase-out range will increase to between $236,000 and $246,000, up from between $230,000 and $240,000.

For a married individual covered by a workplace retirement plan and filing a separate return, the phase-out range is not subject to an annual cost-of-living adjustment and will remain between $0 and $10,000.

Roth IRAs

The income phase-out range for taxpayers making contributions to a Roth IRA will increase to between $150,000 and $165,000 for singles and heads of household, up from between $146,000 and $161,000.

For married couples filing jointly, the income phase-out range will increase to between $236,000 and $246,000, up from between $230,000 and $240,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and will remain between $0 and $10,000.

Saver's Credit

The income limit for the Saver's Credit (also known as the Retirement Savings Contributions Credit) for low- and moderate-income workers will be $79,000 for married couples filing jointly, up from $59,250; $57,375 for heads of household, up from $57,375; and $39,500 for singles and married individuals filing separately, up from $38,250.

The amount individuals can contribute to their SIMPLE retirement accounts will be increased to $16,500, up from $16,000. From a change made in SECURE 2.0, individuals can contribute a higher amount to certain applicable SIMPLE [savings incentive match plan for employees] retirement accounts. For 2025, this higher amount remains $17,600.

The catch-up contribution limit that applies to employees aged 50 and older who participate in most SIMPLE plans remains $3,500 for 2025. Under a change made in SECURE 2.0, a different catch-up limit applies for employees aged 50 and older who participate in certain applicable SIMPLE plans. For 2025, this limit remains $3,850. In addition, a higher catch-up contribution limit applies for employees aged 60, 61, 62 and 63 who participate in SIMPLE plans. For 2025, this higher catch-up contribution limit is $5,250.

The minimum threshold for employees to qualify as a highly compensated employee will increase to $160,000 in 2024, up from $155,000.

The full notice can be found here: Notice 2024-80.

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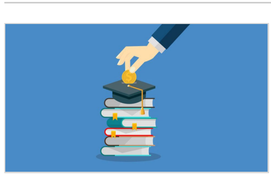

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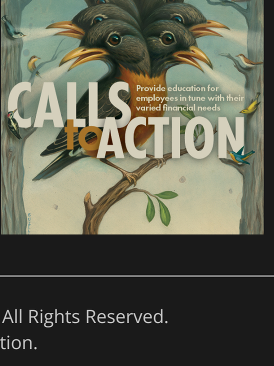

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