NORTHERN TRUST
ASSET MANAGEMENT

A SUMMARY OF IMPORTANT INNOVATIONS FROM SECURE 2.0

Northern Trust
Asset Management

Retirement Solutions

NTAMInvestmentInstitute.com

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A recent study predicts that American workers will collectively experience a $3.7T retirement income shortfall[1] due to limited access to defined contribution (DC) plans[2] and a lack of uptake regarding individual retirement accounts (IRAs), among other reasons.[3] Fortunately, the U.S. Government has not sat idly by. In 2019, the *Setting Every Community Up for Retirement Enhancement (SECURE) Act* introduced a number of innovations aimed at minimizing inequities related to retirement savings. SECURE 2.0 was signed into law in December 2022. The act takes additional steps to broaden access to, and improve savings opportunities within the existing retirement system.

SECURE 2.0 contains dozens of provisions, many of which do not apply to the average employer or American worker. Northern Trust Asset Management's Retirement Solutions team has identified 20 provisions that we believe will be most meaningful for employers and savers. These provisions are summarized below.

PROVISIONS RELATED TO PLAN ACCESS:

1. **Section 101: Expansion of Auto-Enrollment** – Requires 401(k) and 403(b) plans to automatically enroll participants in their respective plans upon eligibility, with an initial automatic enrollment amount of 3%. Participants have the option to opt out. This provision only applies to new plans as current plans are grandfathered in.

2. **Section 102: Modification of Credit for Small Employer Retirement Plan Start Up Costs** – For employers with less than 50 employees, this provision allows for a 100% credit to cover retirement plan start-up costs for years one and two, with future credits declining in subsequent years. This credit phases out for employers with 51+ employees.

3. **Section 115: Withdrawals for Certain Emergency Expenses** – Permits withdrawals from a retirement account for certain emergency expenses, enabling employees to avoid paying the 10% early withdrawal penalty. Only one distribution up to $1,000 is permissible each year and the taxpayer has the option to repay the distribution within three years.

4. **Section 120: Exemption for Certain Automatic Portability Transactions** – Under this provision, retirement plan service providers can provide automatic portability services to employers to better effectuate the transfer of assets from one plan to another. Such services involve the automatic transfer of a participant's plan balance to an IRA, established in connection with a distribution from a former employer's plan into the participant's new employer's retirement plan.

5. **Section 121: Starter 401(k) Plans for Employers with No Retirement Plans** – Enables employers who do not currently offer a 401(k) or 403(b) plan to offer these plans to their employees. These plans generally require employees be enrolled in the plan at between a 3% and 15% deferral rate, but the plan is not required to provide matching contributions. Annual contributions would be limited to $6,000, indexed to inflation, with an additional catch-up contribution for those who are at least age 50.

6. **Section 125: Improved Coverage for Part-Time Workers to Participate in 401(k) Plans** – This provision was established in the original SECURE act, requiring employers to grant 401(k) plan access to part-time employees with either one year of service (the 1,000 hour rule) or three years of consecutive service (500 hours+ total hours of service). Section 125 of SECURE 2.0 reduces the three year rule to two years.

7. **Section 128: Enhancement of 403(b) Plans to Utilize Collective Investment Trusts (CITs)** – Allows 403(b) plans to utilize CITs in their retirement plans, similar to the access granted to 401(k) plans; however, Section 128 will not go into effect until additional securities provisions are finalized.

8. **Section 303: Retirement Savings Lost and Found** – Establishes a public database accessible to all workers to locate lost savings balances. This should make it easier for workers to claim lost retirement savings and help them aggregate all retirement balances they may have across multiple employers.

9. **Section 314: Penalty-Free Withdrawal from Retirement Plans for Domestic Abuse Survivors** –This provision provides for penalty-free withdrawals from plans for individual cases of domestic abuse, allowing small distributions (the lesser of $10,000 or 50% of the participant's account) to be withdrawn without being subject to the 10% tax on early distribution. This may help survivors remove themselves from abusive situations.

PROVISIONS RELATED TO SAVINGS INNOVATIONS:

10. **Section 103: Alters and Mandates the Promotion of Saver's Match for Individuals Making Individual Retirement Account (IRA) Contributions** – Alters how the Saver's Match credit is allocated for IRAs and employer-sponsored plans from a credit given via tax refund to a federal matching contribution deposited into a retirement plan. The match is 50% of the contribution up to $2,000 per individual, phasing out between $41,000 and $71,000 in annual income for taxpayers filing jointly and between $20,500 and $35,500 for taxpayers filing as single or married filing separately. Additionally, this provision directs the Treasury Department to promote the Saver's Match to increase use by low and moderate income taxpayers.

11. **Section 107: Increases Age for Required Minimum Distributions (RMDs)** – Per the original SECURE Act, participants are required to begin taking distributions from retirement plans at age 72. Section 107 of SECURE 2.0 further increases the RMD age to 73 in 2023 – and ultimately age 75 in 2033.

12. **Section 109: Increases and Expands Upon Catch-Up Contribution Limits** – Implements a new annual catch-up contribution of $10,000 or 50% more than the regular catch-up amount for workers age 60, 61, 62 and 63, separate from the maximum $6,500 catch-up contribution for which workers between the age of 50 and 59 are eligible. The exact phrasing of SECURE 2.0 technically renders catch-up contributions unallowable as of 2024; however, Congress will likely correct this before it impacts American savers.[4]

13. **Section 110: Allows Student Loan Payments and Elective Deferrals for Matching Contributions** – Permits employers to make matching contributions to an employee's account within a workplace plan with respect to "qualified student loan payments," resulting in employees receiving matching contributions for repaying their existing student loans. A qualified student loan payment is broadly defined as any indebtedness incurred by the employee solely to pay qualified higher education expenses of the employee.

14. **Section 126: Allows for Small Financial Incentives for Contributing to a Plan** – Establishes a more generous definition of incentives for encouraging employees to enroll in retirement plans, allowing employers to offer de minimius incentives not paid for with plan assets – which includes low-dollar amount gift cards.

15. **Section 127: Allows for an Established Emergency Savings Account** – Allows employers to establish an emergency savings account attached to their retirement plans. Only "non-highly compensated" employees are eligible to take advantage of these accounts. Employers may automatically opt employees into these accounts at no more than 3% of their salary, and employees may contribute a maximum of $2,500 per year. Section 127's new emergency savings accounts may be accessed up to four times per year without incurring a penalty. Upon separating from an employer, employees may take their funds as cash or roll them into a Roth IRA or Roth 401(k).

16. **Section 126: Allows for Penalty-Free Rollovers from 529 Plans to Roth IRAs** – Families and students have legitimate concerns about unused funds being trapped in 529 plans. Per Section 126, which amends the Internal Revenue Service (IRS) Code, savers may make tax- and penalty-free rollovers from 529 plans to Roth IRAs. Beneficiaries of 529 plans are permitted to rollover up to $35,000 over the course of their lifetimes from any 529 plan in their names to a Roth IRA. These rollovers are also subject to Roth IRA annual contribution limits, and the 529 plan must have been open for at least 15 years.

17. **Section 202: Increases How Much Can be Invested in Qualified Longevity Annuity Contracts (QLACs)** – increases the limit for QLACs from a maximum of 25% of an individual's account balance or $135,000 in total to as much as $200,000 in total value with adjustments for inflation. QLACs are beneficial as they provide the ability to defer distributions until as late as age 85.

18. **Section 302: Decreases Penalty for Failing to Take RMDs** – Decreases the penalty for failing to take RMDs from 50% of the RMD amount to 25% of the RMD amount. Furthermore, if taken from an IRA and corrected in a timely manner, the penalty may be further reduced from 25% to 10%.

19. **Section 318: Establishes a Benchmark for Target Date Fund (TDF) Comparisons** – Updates the Department of Labor's participant disclosure regulation so that investments using a mix of asset classes can be compared to a blend of broad-based securities market indices, assuming a number of requirements are met by the blended index. This change in the disclosure rule should facilitate better comparisons and could lead to more informed participant investment decisions.

20. **Section 603: Elective deferrals generally limited to regular contribution limit** – Under current law, catch-up contributions can be made on a pre-tax or Roth basis. This provision mandates that all future catch-up contributions, beginning in 2024, are subject to Roth tax treatment, allowing the U.S. Government to expedite the capture of tax revenue. As mentioned above, the exact phrasing of SECURE 2.0 technically renders catch-up contributions unallowable as of 2024; however, Congress will likely correct this before it impacts American savers.[4]

NEXT STEPS

Northern Trust Asset Management believes that plan innovation is key to improving access for American workers. We have seen numerous provisions in (and prior to) SECURE 2.0 address savings *and* access inequities. However, we understand that there are still many improvements to roll out, which require a close partnership between workers, retirement plan providers, and elected officials. Northern Trust Asset Management will continue working with our Government Affairs team to communicate timely updates to our clients as new legislation unfolds.

NORTHERN TRUST RETIREMENT SOLUTIONS

As one of the largest managers of retirement assets in the United States, our team has deep expertise in developing innovative answers to challenges faced by many plan sponsors, retirement advisors and individual investors. We take a consultative approach to addressing our clients' needs and offer a suite of solutions aimed at improving retirement outcomes.

NORTHERN TRUST ASSET MANAGEMENT

As a leading global asset management firm, our investment expertise, strength and innovation have earned the trust and confidence of some of the world's sophisticated institutional and individual investors. With $1 trillion in total assets under management,[5] and a long-standing history of solving complex challenges, we believe our strength and stability drive opportunities for our clients. Our comprehensive asset class offering includes passive, factor-based, fundamental active and multi-asset class solutions that are available in a variety of investment vehicles.

[1] EBRI Issue Brief Retirement Savings Shortfalls: Evidence From EBRI's 2019 Retirement Security Projection Model® March 7, 2019
[2] Bureau of Labor Statistics, Private Industry Workers (https://www.bls.gov/opub/ted/2021/67-percent-of-private-industry-workers-had-access-to-retirement-plans-in-2020.htm)
[3] Investment Company Institute 2022 Fact Book; p.141 (https://www.ici.org/system/files/2022-05/2022_factbook.pdf; IRA Only + IRA & Retirement Plan)
[4] SECURE 2.0 Error Threatens Catch-Up Contributions, but Meaning Is Clear | PLANADVISER
[5] Asset under management as of December 31, 2022, Northern Trust Asset Management

LET OUR EXPERTS BE YOUR EXPERTS

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