



# SECURE 2.0 Act of 2022

## What employers and employees can expect

The SECURE Act of 2019 brought significant change to retirement savings plans, encouraging more Americans to prepare for their future. And now the SECURE 2.0 Act, enacted on December 29, 2022, has added even more provisions to help Americans save through employer-sponsored plans.

As SECURE 2.0 Act provisions begin to roll out, it's critical for both plan sponsors and employees to understand the impact on retirement plans. Highlighted below are some of the new and updated provisions relevant to retirement plans.

### Key provisions for employers

**Start-up tax credit (optional)** – Small business employers with up to 50 employees are now eligible to receive a credit covering 100% of administrative expenses (up to \$5,000) for the first three years of a new plan. There's also an additional credit for employers with 100 or fewer employees that would help offset the cost of employer contributions to a retirement plan for up to \$1,000 per employee.<sup>1</sup>

**Automatic enrollment (required)** – Most employers who establish new plans after December 29, 2022, will be required to automatically enroll all eligible employees into their plan unless they opt out. Beginning in 2025, employers must enroll employees at a rate of at least 3%, but not more than 10%. Plans must also increase contributions up to at least 10% but no more than 15% of pay. In addition, if participants are automatically enrolled, they must be allowed to withdraw their contributions and stop participating in the plan within 90 days.

**Starter-k (optional)** – Beginning in 2024, the SECURE 2.0 Act allows for a deferral-only plan with lower contribution limits that automatically passes non-discrimination and top-heavy testing. There are no required matching contributions, and annual contributions are limited to \$6,000.

## Important benefits for employees

**Expanded catch-up contributions (required)** – SECURE 2.0 increases the annual catch-up contribution amount for participants ages 60-63 to \$10,000, beginning in 2025.

**Catch-up subject to Roth (required)** – Effective 2024, all catch-up contributions to employer-sponsored qualified retirement plans for participants earning more than \$145,000, will be made on a Roth basis.

**Required minimum distributions (RMDs) (required)** – Increases the age for required minimum distributions from 72 to 73 in 2023 and up to 75 in 2033. In addition, the penalty for not taking an RMD is reduced to 25% (in some cases 10%).

**Long term, part-time eligibility (required)** – Expedites eligibility for long-term, part-time workers allowing them to participate in the plan after two years, beginning in 2025.

**Student loan matching contributions (optional)** – Under the new law beginning in 2024, employers will be able to make contributions to their company retirement plan on behalf of employees who are paying student loans instead of saving.

**Saver's match (required)** – Beginning in 2027, low to middle-income employees will be eligible for a federal matching contribution of up to \$2,000 per year that must be deposited into their retirement savings account. The match phases out based on income and tax-filing status.

**Emergency savings and withdrawals (optional)** – Participants generally will be able to withdraw up to \$1,000 per year from their retirement savings account for emergency expenses without having to pay the 10% tax penalty for early withdrawal if they're under age 59½, beginning in 2024. In addition, companies could allow employees to set up an emergency savings account through automatic payroll deductions.

The overall goal of SECURE 2.0 Act is to help make retirement saving easier and more accessible to Americans. While the SECURE 2.0 Act targets small businesses and encourages them to offer retirement plans by making them more cost effective, the Act will have sweeping effects on employers, employees and the retirement industry as a whole. This is an opportune time for business owners and individuals alike to review their retirement plan options and ensure they are offering and utilizing the benefits that are now available.



For more information on the benefits of the SECURE 2.0 Act of 2022, please contact your ADP Licensed Retirement Services District Manager:

1. Please see your tax advisor to determine if you qualify for these tax credits

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