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SECURE 2.0 Helps Small Employers Help Their Employees

Approximately 78% of people who work for companies with fewer than 10 employees and about 65% of those who work for companies with 10 to 24 employees do not have access to a retirement plan at work.¹ That's unfortunate, because workers with a retirement plan are far more likely to save for retirement than those without a plan. In 2022, 62% of those without a retirement plan had accumulated less than \$1,000 for retirement, compared with 71% of those with a plan who had saved at least \$50,000. More than four in 10 workers with access to a work-based plan had amassed a quarter million dollars or more.²

In December 2022, Congress aimed to address this issue (among others) by passing legislation that will help small employers more efficiently and cost-effectively offer retirement plans to their workforces, while providing incentives to help improve participation rates among lower-income workers. The SECURE 2.0 Act of 2022 — so named because it builds upon the original Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in 2019 — is a sweeping set of provisions designed to improve the nation's retirement-planning health. Here is a brief look at some of the tax perks, rule changes, and incentives included in the legislation.

Tax Perks for Employers in 2023

Perhaps most appealing to small business owners, the Act enhances the tax credits associated with adopting new retirement plans, beginning in 2023.

For employers with 50 employees or less, the pension plan start-up tax credit increases from 50% of qualified start-up costs to 100%. Employers with 51 to 100 employees will still be eligible for the 50% credit. In either case, the credit maximum is \$5,000 per year (based on the number of employees) for the first three years the plan is in effect.

In addition, the Act offers a tax credit for employer contributions to employee accounts for the first five tax years of the plan's existence. The amount of the credit is a maximum of \$1,000 for each participant earning not more than \$100,000 (adjusted for inflation) in income. Each year, a specific percentage applies. In years one and two, employers receive 100% of the credit; in year three, 75%; in year four, 50%; and in year five, 25%. The amount of the credit is reduced for employers with 51 to 100 employees. No credit is allowed for employers with more than 100 workers.

Rule Changes and Relevant Years


In 2024, employers will be able to adopt a deferral-only starter 401(k) or safe-harbor 403(b) plan, which are designed to be lower cost and easier to administer than traditional plans. Both plan types have auto-enrollment features and accept employee contributions only. Employees are enrolled at minimum contribution rates of 3%, not to exceed 15%, and may opt out. The plans may accept up to \$6,000 per participant annually (\$7,000 for those 50 and older), indexed for inflation.

SIMPLE plans may benefit from two new contribution rules. First, employers may make nonelective contributions to employee accounts up to 10% of compensation or \$5,000. Second, the annual contribution limits (standard and catch-up) for employers with no more than 25 employees will increase by 10%, rather than the limit that would otherwise apply. An employer with 26 to 100 employees would be permitted to allow higher contributions if the employer makes either a matching contribution on the first 4% of compensation or a 3% nonelective contribution to all participants, whether or not they contribute. These changes also take effect in 2024.



41% of employees with access to a retirement plan at work had saved at least \$250,000 by 2022.

Source: Employee Benefit Research Institute, 2022



Beginning in 2025, 401(k) and 403(b) plans will generally be required to automatically enroll eligible employees and automatically increase their contribution rates every year, unless they opt out. Employees will be enrolled at a minimum contribution rate of 3% of income, and rates will increase each year by 1% until they reach at least 10% (but not more than 15%). Not all plans will be subject to this new provision. Exceptions include those in existence prior to December 29, 2022; those sponsored by organizations less than three years old or employing 10 or fewer workers; governmental and church plans; and SIMPLE 401(k) plans.

Incentives for Participation

SECURE 2.0 drafters were creative in finding ways to encourage workers, particularly those with lower incomes, to take advantage of their plans. For example, effective immediately, employers may choose to offer small-value financial incentives, such as gift cards, for joining a plan. Beginning in 2024, employers may provide a matching contribution on employee student loan payments, which should help encourage younger workers to plan for their future. Also in 2024, workers will be able to withdraw up to \$1,000 a year to cover unforeseeable or immediate emergencies without having to pay a 10% early distribution penalty, which should help address the fear of locking up retirement-plan contributions for many years. Employees will have up to three years to repay the emergency distributions and will not be able to take a second emergency distribution during this three-year period unless the first has been reimbursed.

- 1) AARP, July 2022
- 2) Employee Benefit Research Institute, 2022

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