

8 Ways SECURE 2.0 Could Impact Your Workplace Retirement Plans



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Gene Marks:

Hey everybody, it's Gene Marks. Welcome and thanks for listening or watching, actually, to this week's episode of Thrive Week in Review from Paychex. Thank you again for joining us. And just this past week, big legislation passed in D.C. – multi-\$1.7 trillion spending bill and included in that were many of the provisions from the SECURE Act 2.0 and these are provisions that affect your business and also affect your employees.

Now, if you remember or not, back in 2019, the Congress had passed the SECURE Act 1.0, and what that did is it really expanded the ability for people to save for retirement and it gave a lot of encouragement and incentives, tax incentives for employers to help their employees save for retirement.

Well, it's been a while and there's been some additions to that and there was a similar bill or bills that were passed in the House and the Senate, which have been reconciled, and now a lot of those provisions have been included in the big spending omnibus bill that passed right before Christmas. And these provisions, like I said, really affects your business.

There are many ways that it will affect and I will be doing future podcasts and videos about this to really dig into the details. But, just for starters, so, you know, there are eight big ways that this bill is going to impact your business and your employees when it comes time to retirement.

OK, for starters, there will continue to be tax credits for small businesses that set up a 401(k) plans for their employees. Now, in the Secure Act 2019, specifically, it was for employers to less than 100 employees. They got tax credits for helping to set up. That will continue with the SECURE Act 2.0. So, look, if you don't have a 401(k) plan in your business, then you really should have a 401(k) plan in the business. Talk to your accountant or talk to your tax attorney or talk to your payroll service because if you're going to set up a 401(k) plan, both the SECURE Act from 2019 and the SECURE Act 2.0 are going to help you with incentives, tax credits for setting up that 401(k), which basically should take away most if not all of the costs that you have for getting it set up. So, that's way number one.

Way number two, the SECURE Act version 2.0, which just passed, is going to require employers to require their employees to enroll in their 401(k) plan – automatic enrollment, a minimum contribution of 3 percent. Now, before you your employees panic, people can pop, you know, they can opt out. So, they do have that option. But the idea there is that once you put people in it and they get used to maybe making these contributions or hear about this, the idea is hopefully that will continue on in the future and people will put away money for retirement. That doesn't take effect until 2025.

Not taking effect until 2024 is another provision of SECURE Act 2.0. The third thing that impacts your business is that it will enable you to make matching contributions to your employees 401(k) account for what amounts that they are using to pay down their student loans. So, you know, up until now, people paying down their student loans, it's like they're taking money away from their retirement to pay down their student debt, which really isn't great. So here, this new act is giving us as employers, the incentive to put tax-free contributions into our employees' 401(k) plan that matches whatever they're paying down their student loans. It's a great benefit that you can provide and something that is now, you know, legal per this act and that goes into effect in 2024.

The next thing that goes into effect has to do with your older employees. Now, under, you know, the previous 401(k) rules, you could not withdraw – you had to start withdrawing your 401(k) amounts, taking distributions and being taxed on them at the age of only 70 years old. That went up to 72. Now the SECURE Act 2.0 has increased the age to 73. So, beginning in 2025, your employees that are as old as 73 years old, they can take – they don't have to take required distributions from their 401(k), they can leave it in there and let it continue to grow as part of their retirement plan, as well.

By the way, 10 years later, that number is going to go up even more. But for now, let's just say for employees that are at the age of 73, all the way up to starting in 2025, they can leave their money in there.

Another provision has to do with emergency withdrawals. So, right now, if you take any money out of your 401(k), you get penalized – pretty significant at that, like a 10% penalty. Well, the SECURE Act 2.0 now allows employees to take out \$1,000 a year for defined emergencies, which means that if an employee really gets into trouble and they need help, you know, a lot of small-business owners help out their employees, and that's fine and that's really good. But there'll be another source of cash for them if they have money in their retirement account, they can take the cash out. They won't be penalized for doing it if it's up to \$1,000. That provision starts in 2024.

Got a few more for you, okay? If you're over the age of 60 years old, you can now double your catch-up provision. Now, previously, you could contribute a few thousand dollars or like \$5,500 extra into your 401(k) if you are over the age of 59. But now if you're over the age of 60, you can contribute up to \$10,000 to your 401(k) plan and you can have a tax deferred to do it. It's another incentive to put as much money away as possible, particularly if you're an older employee. So, encourage your older employees to do that because the more they put away for retirement, the better off they'll be in the future.

Two more items. Okay? There is a saver's credit for those making less than about \$71,000 a year – this is married filing jointly. It goes into effect in 2027, and what this saver's credit is, is basically a match from the federal government. So, starting in 2027, when employees put money into their 401(k), not only could you match it if you want to, but the federal government will match it up to \$2,000 for their contributions beginning in 2027. So, it's an extra form of savings that the government is going to provide.

And finally, there are part-timers. So, beginning in 2025, if you have any part-timers that have working for you for two years, putting in a minimum of 500 hours a year, they can participate in your 401(k) plan. Previously it was three years, now it was reduced down to two years.

So, let me recap this for you guys, okay? There are eight big ways the SECURE Act 2.0 is going to impact your business. There's tax credits for getting a 401(k) plan set up. There is automatic enrollment now is going to be required in 2025 to automatically enroll your employees. If your employees are putting away money or putting money to pay down their student loans, starting in 2024 you are going to be allowed to match those as well and they can get a tax-free contribution and you get a tax deduction for that, as well. It's a big deal.

Minimum distribution now has been raised to the age of 73, starting in 2025, so that your older employees can leave their money in their retirement accounts for that much longer. For your employees that need help beginning in 2024, emergency withdrawals of up to \$1,000 will be allowed out of their 401(k) accounts without any type of penalties involved.

Your employees that are over the age of 60, they can now contribute an additional \$10 grand to their 401(k) plans. That starts in 2025, and that way they can put away even more money tax free for their retirement. There is a saver's credit which is doubled. It's now about \$1,000: The government in 2027 – it's not that far off – they're going to double it to \$2,000, which means your employees making less than \$71,000 married (jointly filing), they can get a match from the federal government for what they're putting away for their retirement plans.

Finally, your part-timers, beginning in 2025, will be able to participate in your 401(k) plan after only working for you for two years and putting in 500 hours a year. It's a lot of big deal.

Couple thoughts, by the way, on the 401(k) plans, retirement plans before I leave you. Number one, you want your employees to put away as much money as possible in their 401(k) plans for two big reasons. Number one is people aren't saving enough for retirement, and I have countless clients that find they have older employees, loyal long-term employees that didn't put enough money away - and the employers, my clients have had to kind of pitch in and help them with some of their retirement savings. You can't just leave people, you know, in the lurch that way.

Well, the more they put away for retirement and there are now a lot of incentives to do that, I think it takes a lot of the pressure off us as business owners. It puts more of a responsibility with our employees and gives them lots of motivation to put money away for, you know, for the future.

Secondly, the more your employees put away for retirement, the more you can put away for retirement, because so many of my clients are limited by what they can contribute to our 401(k) plans because of discrimination test, you can't contribute too much or you'll violate these tests because you're a highly compensated, relatively, in your group or you're an owner of the company. The more your employees put away, the more you can put away, as well.

So, all these incentives are really, really helpful. Now, I just giving you sort of a 30,000-foot overview. More details are going to be coming out about the SECURE Act 2.0 or SECURE 2.0 once this legislation starts getting read and digested, and we're going to be back to you with even more details about it. If you have questions, talk to your accountant about it. Talk to your payroll service – hopefully, it's Paychex – talk to your attorney, watch us, and read about it.

These are all things coming down the line that are great benefits for your employees and you do help everybody save for retirement.

Hey, my name is Gene Marks. You've been listening to this week's episode of Week in Review, a THRIVE podcast from Paychex. Thanks so much for listening. I hope this information helps. We'll be back to you shortly, hopefully next week, with some more help and information that will impact your business based on the most current news. Hope you're having a great holiday season. We will see you again real soon. Take care.

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