

Ready For Retirement? Congresswoman Judy Chu On The SECURE Act 2.0



Gene Marks

CPA, Columnist, and Host



**Congresswoman
Judy Chu**

27th District of California

Announcer:

Welcome to THRIVE, a Paychex Business Podcast, where you'll hear timely insights to help you navigate marketplace dynamics and propel your business forward.

Announcer #1:

Here's your host, Gene Marks.

Gene Marks:

Hi, everybody. Welcome back. I'm here with Congresswoman Judy Chu, a Democratic Congresswoman from California. Congresswoman, thank you so much for joining me.

Congresswoman Judy Chu:

Oh, thank you so much for having me.

Gene Marks:

I'm glad to be speaking with you. I just wrote about this recently and I have been talking about this SECURE Act a lot. That's what this conversation is about. There was the SECURE Act version 1.0 that addressed retirement savings plans and provided a lot of assistance for individuals and employers that passed back in December of 2019. Then because of COVID, it kind of got lost in the shuffle and not a lot of business owners really realize the benefits of it.

Gene Marks:

But the good news is that hasn't stopped Congress, that hasn't stopped you, as a sponsor of the next version of this bill, a 2.0 version in the House, which passed, I'm looking at my notes here, by a 414 to 5 vote. If anybody thinks that bipartisanship is dead in Washington, there's a lot of challenges, but it's certainly not dead when you look at an act like this. Clearly it has a lot of bipartisan support. Let's start at the beginning. Tell us a little bit why, Congresswoman, you were behind this act in the bill. Give us your thoughts on it.

Congresswoman Judy Chu:

Well, we are at a near crisis as far as Americans and their retirement. About 50% of American households are at risk of not having enough savings to maintain their living standards in retirement. We need to

be fixing this now. This is why we started with SECURE 1.0. The Ways and Means Committee did come together and work on this, Democrats and Republicans. Believe me, it was a pleasure to have a bill markup where we saw such kumbaya moments where everybody agreed that something had to be done about this.

Congresswoman Judy Chu:

In 2019, you're right, the SECURE Act did pass. It was one of the most significant retirement bills to move through Congress in many, many years. Thanks to that act, 4 million more Americans are now able to save for retirement through their employers. And as many as 700,000 new retirement accounts will be formed. But, we knew that there was still a big void that needed to be filled. That's why we're very, very eager to pass SECURE 2.0, which received just as much bipartisan support. It did pass out of the House just recently. It's going off to the Senate, but considering how strongly bipartisan it is, I just feel very strongly that it will pass and that it will be signed into law by President Biden.

Congresswoman Judy Chu:

First of all, the most significant thing is that employers who have offerings of retirement plans will be required to automatically enroll their employees. By changing retirement plans from an opt-in to an opt-out system, we can greatly increase participation. Now, as it turns out, employees do want to participate in a retirement plan, but they don't like really thinking about it. If you can do the opt-out, the obvious thing is that so many more people will participate. In fact, there was a study of Latino workers. With the opt-in program, only 19% of them participated. With the opt-out program, 75% of them participated. There's a dramatic increase.

Gene Marks:

I'm sorry to interrupt you there, but just to kind of emphasize what you said. One of my clients is a company actually in Trenton, New Jersey. They have a large Latino workforce there. There's a large Hispanic community. A lot of these people are first generation in the country. They're hard workers, don't necessarily have the greatest of trust in government, for whatever reason that might be. Getting them to put money away into ... it was hard for them. The SECURE Act 1.0 gave incentives to employers to make it automatic enrollment, like a tax credit for employers for telling their employees to do that. I had this one client that really jumped all over that and implemented it. Just to speak to the numbers, it had an enormous impact on enrollment in their business. A huge amount of people enrolled and very few opted out.

Congresswoman Judy Chu:

That is so good to hear. It proves our point that this automatic enrollment would be embraced by many. If employees could have some experience with it over a couple of paychecks, they see that it's not onerous, that ultimately it will benefit them. If they can be shown that this money will compound over time, it'll really contribute to their quality of life upon retirement. This is a huge issue and something ... now, I do have to tell you though, not every business will have to do this. If they have under 10 employees or they've been in business for less than three years, then it's not mandatory for them to do the automatic enrollment.

Gene Marks:

Let me add something in here only as an accountant myself, is that because remember our audience are business owners and most of them are owners of companies with employees. The more your employees put money away, the more you as a business owner can put money away without failing those discrimination tests at the end of the year. Even if you have less than 10 employees, or if you're a new startup business, I don't think it should discourage you from setting up a 401k plan and really pushing your

employees to join. It's good for them, but again, as a business owner, there's a self-motivation reason to do it.

Congresswoman Judy Chu:

Yeah, thank you for that. Well, there are so many provisions here, but another big one is increasing the catch-up contribution limits so that workers are making up for the lost time that they had. I mean, so many do not think about putting money in before their age 50, but what this bill does is index for inflation after age 50. Then between the ages of 62 to 64, you could contribute as much as \$10,000 more-

Gene Marks:

It's amazing.

Congresswoman Judy Chu:

... for your retirement savings.

Congresswoman Judy Chu:

Here's a big one for the small businesses. That is this gives a 100% reimbursement for small businesses who want to set up a retirement plan. We know that there is a burden towards setting up such a plan and that there are all kinds of costs, and there is a new aspect of this, which is that small employers can get up to \$1,000 per employee as a tax credit if they do indeed start this. This is a three-year startup tax credit so that small businesses have an even greater incentive to start such a program.

Gene Marks:

That's a continuation on SECURE Act 1.0, but I only think 50% of those startup costs were covered then. Now, it's a full 100%. That is another big incentive. I guess when we define small businesses, is it still less than 100 employees? I know that was what it was in the first version.

Congresswoman Judy Chu:

It was, but now the employers of between 50 to 100 will get a more generous tax credit for starting such a program.

Gene Marks:

That's great. It's really great to speak to a member of Congress who is so versed in the details of the bills that you're involved in. I mean, all this stuff is really good and I'm glad that we've got this information. There's another aspect. There's a couple other things in SECURE Act 2.0 that I thought was very interesting. It increased the age to 75 of where they were required to take minimum distributions from their 401k. Can you talk a little bit about that?

Congresswoman Judy Chu:

Yes, it increases the age even further than it did in SECURE 1.0, which was increasing it up to age 72. Now it's up to age 75. The good thing here is that it gives more flexibility to people so that they aren't taking these distributions before they necessarily have to use it. Therefore, they can save it more clearly for their retirement when they actually need it. Everybody's situation is different. Age 75 may be much better for some people.

Gene Marks:

Yeah, I agree. Also, it keeps older workers in the workforce as well. It gives them a little bit more motivation to, if they want to, to continue working because they don't feel like they have to start taking distributions and go into retirement because of that, which is good because we lost a lot of workers during COVID. A lot

of them were older workers who decided just to retire. A lot of them now are starting to realize wanting to come back and they certainly wouldn't be penalized because of this. That's also really good.

Gene Marks:

Another one, the bill establishes, and I thought this was interesting, a retirement savings lost and found.

Congresswoman Judy Chu:

Yes.

Gene Marks:

We had that situation. My wife was a school teacher years ago. We were asking saying, "We probably had a little bit of money put away in a pension. What happened back then," and we're scrambling around to try and figure it out. Are you familiar with this to talk a little bit about that?

Congresswoman Judy Chu:

Yes.

Gene Marks:

Tell us a little bit about what this database would hopefully do.

Congresswoman Judy Chu:

Well, this is actually one of my favorite ones because, first of all, there are employees that don't know if they do have savings somewhere, but they also don't know where to look. This would provide for a database through which they can scroll. But actually, this is very beneficial to small businesses as well because they can utilize it. Maybe they have some distributions that must go to some employee, but that employee has gone, maybe that employee has changed their name, maybe their employee's address is not current and has changed multiple times. This would be something that could definitely benefit both employer and employee.

Gene Marks:

That makes a lot of sense. Let's also not forget, the reason why we're doing all this, besides the passion for our business and all that, we're trying to put money away for retirement and pay for our kids' education. If there's money out there that we had coming due to us from a prior life, we would like to be able to find that. That helps us, personally, a lot. That's good.

Gene Marks:

In the few minutes that we have left, I have just a couple more questions. We were talking about 401k plans and savings for there. The SECURE Act 2.0 does have provisions for after-tax plans as well, like a Roth IRA, for example. One of them was to help victims of domestic abuse as well. They could take added ... and for other hardships. I was hoping you could maybe speak a little bit to that as well.

Congresswoman Judy Chu:

Yes, this is another huge benefit of SECURE 2.0, that domestic violence survivors who need those funds can actually take it out without penalty. Also, for those who have hardships, even beyond domestic abuse survivors, they could self-certify as to their hardship and be able to take out those funds during that time period.

Gene Marks:

Got it. Just a couple more questions and, by all means, I'll let you go. I know you're busy. First question is,

am I leaving anything out? Is there anything in particular that you wanted to make sure that we emphasize while we have the chance that we're talking together?

Congresswoman Judy Chu:

I do think there are a couple of important things that are beneficial. For one thing, there's a military spouse provision. Small businesses can get an even greater tax credit for their retirement plans if they have a military spouse. The thinking here, and the known belief, is that military spouses often do not remain employed long enough to become eligible for their employer's retirement plan or for their benefits to vest. If a small business offers immediate vesting and eligibility, then they may be eligible for a tax credit of up to \$500 per military spouse employee. That's a good one.

Gene Marks:

Excellent, that is great one.

Congresswoman Judy Chu:

Then there's also the student provision. There are some employees that just are paying off their student loans and they just don't have enough money to go around to contribute to some retirement plan. This innovation is that if an employee is contributing to payments for a student loan, then the employer can count that as a contribution to the retirement plan and then can match it.

Gene Marks:

That is great stuff. Look, there's a lot in this bill. Obviously, if you're listening to this and you're a business owner, you got to keep close track of this and talk to your benefits advisor, or your financial advisor, to really know the details in that.

Gene Marks:

Congresswoman Chu, just very quickly, out of all the different bills that you have the opportunity to work with or sponsor, just personally, I'm curious why you chose this one. Is retirement savings like something near and dear to your heart or is there anything in particular why this was so important to you?

Congresswoman Judy Chu:

Well, I have to tell you about my special part of this bill-

Gene Marks:

Let's hear it.

Congresswoman Judy Chu:

... which is for the very low-income people and the savers credit. That is actually my bill. I just have great empathy for people who are just barely making ends meet, don't have enough money to even put food on the table or even pay the rent. Thinking of how difficult it would be for them to put any money towards retirement just really touches my heart. That's why I took a great interest in the savers credit. The savers credit is actually a good deal if more people knew about it, which is that if you're a low-income person and you contribute something to your retirement, then you could have a non-refundable tax credit. That is, if you owe say \$1,000, you could actually have 50% of that waived. Your actual tax bill would be cut by that amount of money.

Congresswoman Judy Chu:

It used to be a very difficult one to really deal with because the credit would be valued at either 10%, 20%, or 50% of a taxpayer's retirement contribution, depending on your income level. But now, in this bill, we make it a straight 50%.

Gene Marks:

That's great.

Congresswoman Judy Chu:

Yeah, you contribute \$2,000, but actually, you get \$1,000 of actual tax credit back in terms of the taxes that you owe.

Gene Marks:

Got it. It's great stuff. I realize you're not in the Senate, so you're limited in your predictions, and you mentioned very earlier about the bipartisan support and you do expect this to go. Do you think the SECURE Act will become law? Just this is your personal opinion in 2022. It seems like a kind of a slam dunk in an election year. What do you think?

Congresswoman Judy Chu:

I think that everybody wants a win. We have been stuck so much at the Senate level on these other pieces of legislation, but this is one where both Democrats and Republicans can agree there is a win. It will benefit Americans across this nation. It will especially benefit low-income Americans, but it will help all Americans be able to save for their retirement and to be able to have greater flexibility as to how they give and also when they take out those funds. I, actually, very much predict that this will pass and then be signed into law.

Gene Marks:

Congresswoman Judy Chu, a Democrat from California. Thank you so much for joining us.

Congresswoman Judy Chu:

Thank you. It was a pleasure.

Gene Marks:

Do you have a topic or a guest that you would like to hear on THRIVE? Please let us know. Visit [Payx.me/thrivetopics](https://payx.me/thrivetopics) and send us your ideas or matters of interest. Also, if your business is looking to simplify your HR, payroll, benefits, or insurance services, see how Paychex can help. Visit the resource hub at [Paychex.com/worx](https://paychex.com/worx) that's W-O-R-X. Paychex can help manage those complexities while you focus on all the ways you want your business to thrive.

Gene Marks:

I'm your host, Gene Marks. Thanks for joining us. Until next time, take care.

Announcer:

This podcast is property of Paychex, Incorporated 2022. All rights reserved.