Mercer

welcome to brighter

secure 2.0

Five provisions with big potential to improve retirement security

The SECURE Act of 2019 set a foundation for expanding retirement coverage, increasing savings and supporting retirement income for Americans. The passing of "SECURE 2.0" (Securing a Strong Retirement Act [SSRA]) by an overwhelming majority in the US House of Representatives marks a further positive step toward those goals. We recognize and applaud the Senate's work on similar legislation and hope Congress is able to send a final measure to the President by year end.

Mercer views many of the SSRA's provisions favorably. The expansion of retirement coverage and retirement income are critically important, given that approximately 30% of Americans lack access to any retirement program and only 55% of private sector workers participate a retirement plan[1]. Further, Mercer's 2022 Global Talent Trends Study found that 80% of American workers don't intend to completely stop working once they reach retirement age, with one of the driving reasons being that they cannot retire due to financial necessity.

39%

The percentage of American workers who do not intend to stop working because of financial necessity[2].

1. National Compensation Survey. Bureau of Labor Statistics. March 2020. Employee Benefits in the United States, March 2020 (bls.gov). Retirement program includes defined benefit or defined contribution plans.
2. Mercer Global Talent Trends Survey, April 2022

While a final SECURE 2.0 package is likely months away, it is important to understand provisions in the House bill that are expected to survive in some form, as well as the opportunities or implications that these provisions may have on your DC plan, and how they may evolve.

The current provisions can be broken into three general categories:

participant focused

- Student loan matching payments
- Mandated automatic enrollment and escalation for new plans
- Expanded coverage of part-time workers
- Changes to required minimum distributions
- Withdrawal changes
- Increase catch-up contribution limits

plan sponsor focused

- Expanded self-correction program for plan sponsors
- Retirement savings lost and found
- Amendments to qualified longevity annuity contracts (QLACs)
- Expand reliance on self certifications
- 403(b) plans permitted to join PEPs & support for use of collective trusts
- Increased credits for small employers

revenue-raising

- Mandated Roth treatment for catch-up contributions
- Matching contributions permitted on Roth basis

Note: This graphic is intended to provide a thematic summary and is not inclusive of all provisions. For a more detailed look at some provisions of SSRA, see Mercer's GRIST.

We believe the following provisions in SSRA build on the SECURE Act's foundation with significant and wide-ranging effects for DC plans:

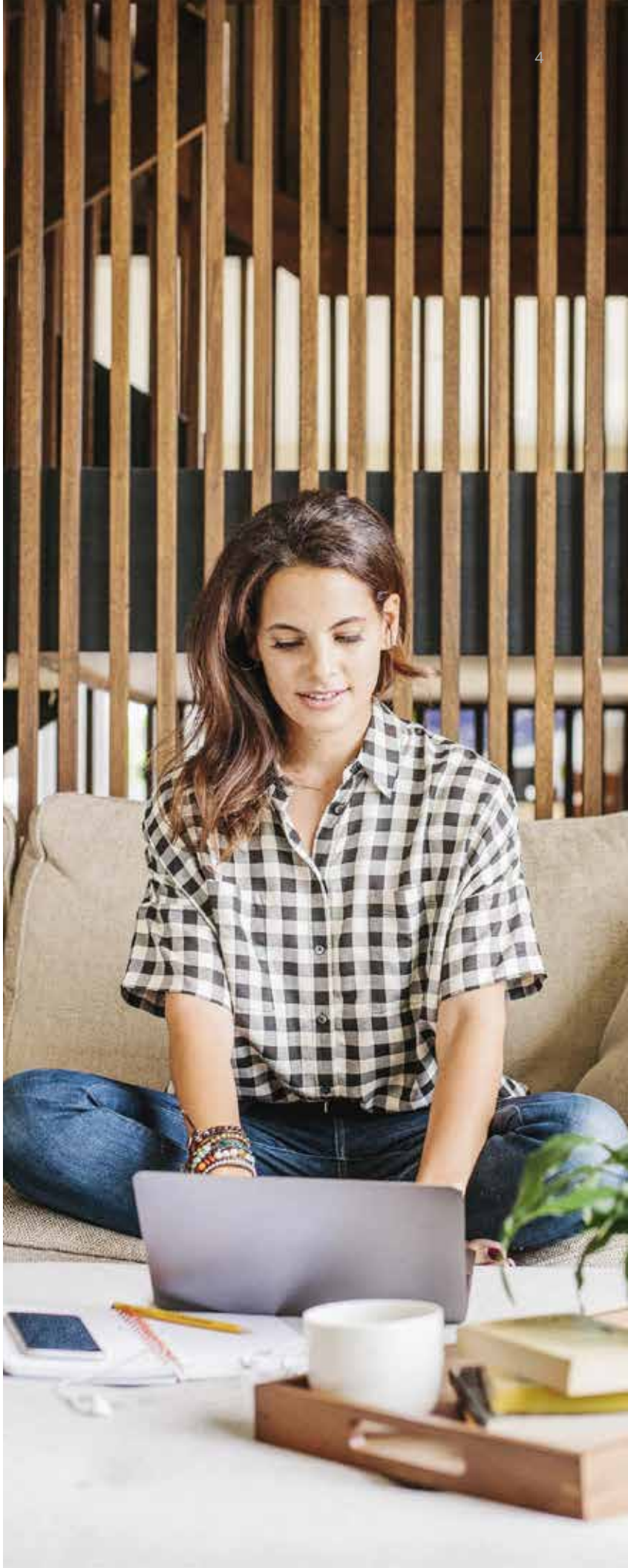
Coverage for part time workers

There are over 26 million part-time workers in America, many of whom are not currently eligible to access employer-sponsored retirement benefits[3]. SSRA would allow some long-term part-time workers to participate in workplace retirement plans a year earlier than the SECURE Act required them to be eligible. Sponsors of non-collectively bargained 401(k) and 403(b) plans would have to let part-time workers voluntarily contribute to the plan if they have completed at least 500 hours of service in two consecutive years (reduced from three) and have attained age 21.

We are pleased to see this effort to expand retirement plan coverage, in addition to other provisions that provide incentives for smaller employers to offer a workplace retirement plan. With more workers relying on a DC plan for their retirement savings and a growing number of people in flexible or part-time work arrangements, providing individuals with a reliable and consistent path for accumulating retirement wealth is critically important.

From an employer perspective, these changes do not require increased funding, although some employers may voluntarily choose to match part-time workers' contributions. Sponsors should closely monitor the impact on administrative and investment fees as more part-time workers entering the plan will change key metrics used to determine plan and investment costs.

3. Statista, 2022. Monthly number of part-time employees in the United States from February 2021 to February 2022.



Roth contributions

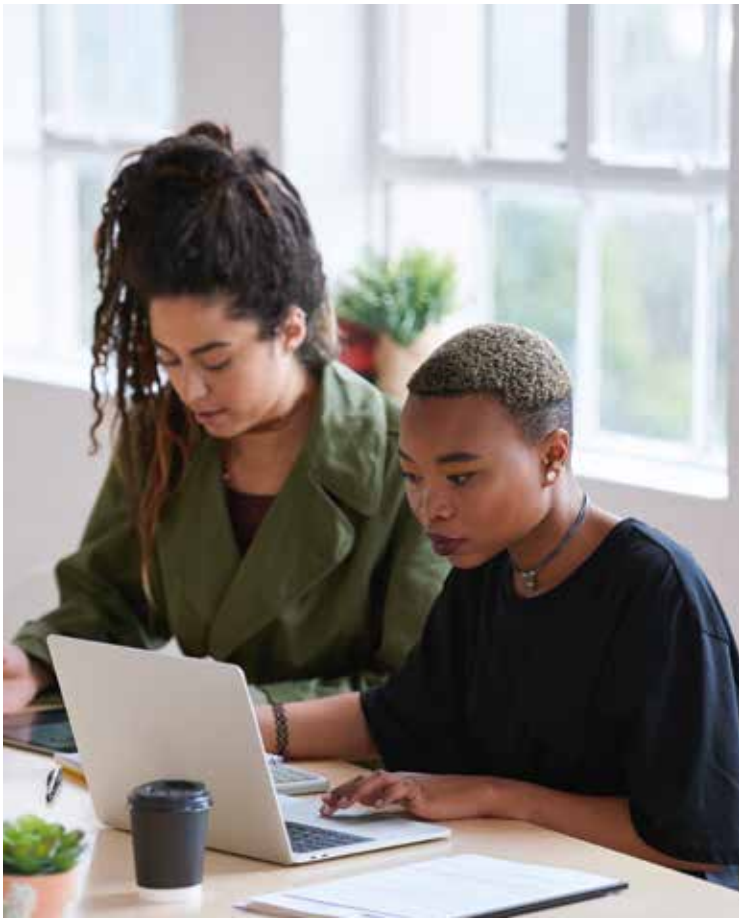
Many employers will be pleased to hear that the elimination of Roth in-plan conversions proposed in separate legislation is not included in SSRA. However, lawmakers want to raise additional tax revenue by encouraging Roth employer matching contributions. SSRA allows employees to treat some or all of their matching contributions as Roth under 401(k), 403(b) or governmental 457(b) plans, if their employer provides this option. While participants anticipating a higher tax bracket in retirement could benefit from this change, it could require significant modifications to recordkeeping and payroll processes and systems, which may require a reprioritization of other initiatives. Nonetheless, we believe this will be an attractive provision to many employees and pique the interest of sponsors interested in providing participants with full tax flexibility[4].

Student loan matching payments

More than 21% of American families have student loan debt[5]. Addressing the impact of this burden on saving for retirement will help employers improve their employees' financial wellness and may even support diversity, equity and inclusion initiatives.

SSRA would let sponsors of 401(k), 403(b), governmental 457(b) and savings incentive match plans make employer matching contributions into the savings plan based on employees' qualifying student loan payments as if the payments were salary-reduction contributions. This change could be a meaningful benefit for employees otherwise forced to choose between saving for retirement and paying student loan debt, and may be particularly beneficial to Black or African American families who have a higher student loan prevalence (30.2% compared to white families at 20% and Hispanic families at 14%).[5]

While this provision takes a solid step toward helping employees balance the need to pay down debt and save for the future, it is not a perfect solution. The change won't address other forms of debt — such as credit card and housing debt — that are a significant burden for many American families. Neither does the provision give employers as much flexibility as they might like to help employees. Broader debt-management initiatives will continue to have a place within employers' financial well-being programs.



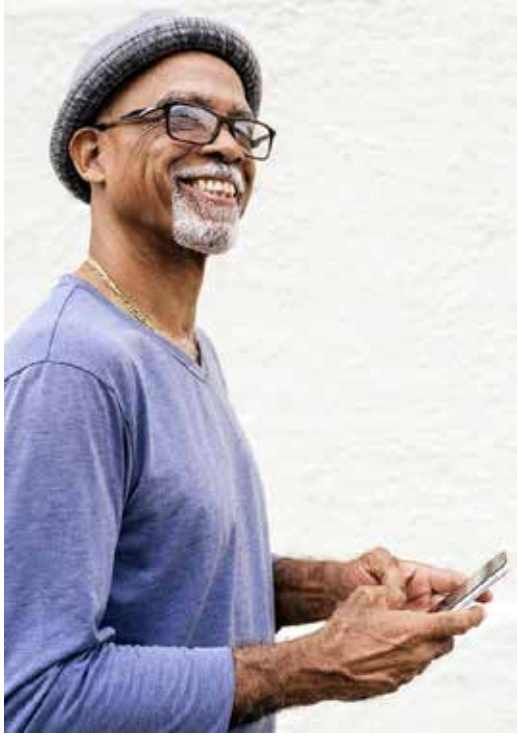
4. Mercer does not provide tax or legal advice. You should contact your tax advisor, accountant and/or attorney before making any decisions with tax or legal implications.
5. https://www.ebri.org/content/student-loan-debt-who-has-it-and-how-much

Enhancements to 403(b) plans

Many employers will be pleased to hear that the elimination of Roth in-plan conversions proposed in separate legislation is not included in SSRA. However, lawmakers want to raise additional tax revenue by encouraging Roth employer matching contributions. SSRA allows employees to treat some or all of their matching contributions as Roth under 401(k), 403(b) or governmental 457(b) plans, if their employer provides this option. While participants anticipating a higher tax bracket in retirement could benefit from this change, it could require significant modifications to recordkeeping and payroll processes and systems, which may require a reprioritization of other initiatives. Nonetheless, we believe this will be an attractive provision to many employees and pique the interest of sponsors interested in providing participants with full tax flexibility.

A major change included in SSRA provides support for allowing 403(b) plans to invest in collective investment trusts (CITs). Currently, most 403(b) plans are limited to mutual funds and annuity contracts. Flexibility to invest in CITs could lead to notable fee savings for many participants because CITs are typically less expensive due to lower operational and administrative fees when compared to mutual funds and annuity contracts. Mercer has long been a proponent of using institutional vehicles such as CITs and separate accounts in DC plans, as these vehicles often reduce investment costs and may provide broader access to high-quality investment strategies.

In addition, the SECURE Act created Pooled Employer Plans (PEPs), but 403(b) plans were precluded from participating. SSRA would permit 403(b) plans to participate in PEPs, and by joining a PEP, small employers offering a 403(b) plan may also be able to claim plan startup tax credits. PEPs may be an attractive alternative to traditional, single-employer plans for employers that could benefit from their greater economies of scale, reduced administrative burdens and lessened fiduciary risks.



Guaranteed income

Mercer is a long-standing advocate of maximizing retirement income through the appropriate use of both guaranteed and non-guaranteed income solutions. We believe the inclusion of retirement income benefits in DC plans will become standard in the future. SSRA directs the Treasury to allow more flexibility in the use of Qualified Longevity Annuity Contracts (QLACs) in DC plans. Although QLACs are not widely used today, the legislation would remove some barriers to annuity payment features without violating required minimum distribution (RMD) rules. We believe that continued flexibility around how guaranteed products are used and made available will improve plan sponsors' and participants' comfort with annuity products.

As the congressional effort to pass a package of SECURE 2.0 reforms continues this year, employers should monitor the legislative debate as Senate legislation takes shape and the two chambers work to hammer out a final bill. Effective dates for some provisions will likely be altered and certain mandates may be softened or changed; however, Congress could send a final measure to the President later this year. Mercer believes this legislation represents a great opportunity to improve retirement security for millions of Americans, and we will continue to work with Congress to improve and advance a final bill.

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