What is SECURE 2.0?

To strengthen America's retirement plan system, Congress passed both the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) and the SECURE 2.0 Act of 2022 (SECURE 2.0).

SECURE 2.0 includes dozens of new rules aimed at making it easier for Americans to save money and better prepare for retirement through employee retirement plans and individual retirement accounts (IRAs). Some rules have already taken effect, while others take effect at different times from now through 2027.

Here's a look at a few key provisions with payroll implications.

How Can Workforce Acceleration Help?

To help clients navigate the constantly shifting legal and regulatory environment, our Workforce Acceleration HCM solution and the knowledge of our operational staff are invaluable. We collaborate extensively with clients by checking their retirement plans' relevant documents to prepare a configuration scope document, reviewing the scope document and specific business requirements with clients and obtaining clients' sign-off, and configuring the HCM solution so clients can manage their employees' retirement plan participation.

Subscribe to the **Insperity HR Resource Center**, which is another way clients can stay current on state and federal standards. Sign up for automatic updates in the states where your organization is located and where your employees reside.

Key Provisions and Payroll Readiness

SECURE 2.0 Section	Effective Date	Required/ Optional	Overview	Payroll Implication
101 Expanding Automatic Enrollment	01/01/2025	Required	Requires new 401(k) and 403(b) plans required to automatically enroll employees at a pre-tax contribution level of at least 3 percent, but not more than 10 percent of the employee's pay, with a required automatic escalation feature.	Clients will need to monitor payroll to ensure participants are automatically enrolled at a minimum contribution rate of 3%and ensure the payroll system is increasing the contribution rate on an annual basis.
109 Increased Catch-up Contributions	01/01/2025	Required	Increases the annual catch-up contribution limit for participants aged 60-63.	Payroll system will need to reflect higher catch-up contributions for eligible employees.
110 Student Loan Payment Matching	01/01/2024	Optional	Permits an employer to make matching contributions under a 401(k) plan, 403(b) arrangement, SIMPLE IRA plan, or governmental 457(b) plan with respect to "qualified student loan payments."	Clients will need to obtain participant self-certifications and record student loan payments to make the corresponding matching contribution.
117 Increased Co ntribution Limit for SIMPLE Plans	01/01/2024	Optional	Increases the annual deferral and catch-up contribution limits in SIMPLE plans by 110% of the otherwise applicable limit for 2024. Applies automatically to certain employers and only if elected by the remaining eligible employers.	Payroll system will need to reflect higher catch-up contributions for eligible employees.
121 Starter Plans	01/01/2024	Optional	Creates Starter 401(k) and 403b plans that permit only employee contributions (that is, no employer matching or profit-sharing contributions) with lower total annual deferral limits.	Payroll system should be able to accommodate Starter plans with accurate annual limits and auto enroll feature to eligible employees.

125 Expanded Long-term Part Time (LTPT) Eligibility	01/01/2025	Required	Employers must allow part-time employees to contribute to their 401(k) and 403(b) plans if they work 500 or more hours in each of two (instead of three) consecutive 12-month periods.	Clients will need to track the hours worked for part time employees and, once they have worked enough hours in consecutive periods, permit them to make participant contributions.
306 Timing of Governmental 457(b) Deferral Elections	01/01/2023	Required	Allows participants in governmental 457(b) plans to change their deferral rate at any time, i.e., it is no longer necessary to require deferral rate changes prior to the beginning of the month in which the compensation is earned.	Ensure your plan provider and payroll systems are ready to accommodate the new deferral rules.
601 SIMPLE and SEP Roth IRAs	01/01/2023	Optional	Employers may permit employees participating in a SIMPLE IRA or SEP plan to elect to make contributions to a Roth IRA.	Ensure your plan provider and payroll systems are ready to accommodate the Roth contributions.
604 Employer Matching or Nonelective Contributions as Roth contributions	01/01/2023	Optional	Employers may amend their 401(k), 403(b), and governmental 457(b) plans to allow employer matching and nonelective contributions to be designated as Roth. Employees must elect to have these employer contributions treated as Roth contributions, so they can be included in income up front and grow tax-free.	Ensure your plan provider and payroll systems are ready to accommodate the reporting and recordkeeping requirements for Roth employer contributions.

Summaries of Key Provisions

Section 101: Expanding Automatic Enrollment

A primary goal of SECURE 2.0 is to increase participation in retirement savings by Americans. Prior to SECURE 2.0, defined contribution plans had the option to adopt automatic enrollment and escalation provisions for participants. Now new 401(k) and 403(b) plans established after December 28, 2022, are required to automatically enroll participants at a default rate between 3-10% and automatically increase their participant contributions by 1% annually up to at least 10% but no more than 15%. Participants can opt out at any time. This requirement must be implemented for plan years beginning on or after January 1, 2025.

There are exemptions to this requirement. Any plan established prior to December 29, 2022, is exempt from the auto-enroll and auto-escalate requirements. New businesses (i.e., those in existence for less than 3 years) are also exempt until their 4th year in existence. And small employers with 10 or fewer employees are also exempt until one year after the employer normally employs more than 10 employees.

An employer considering adopting a new plan or altering an existing plan to include similar provisions should discuss implications with their plan service provider.

Section 109: Increased Catch-up Contributions

Every year, participants aged 50 and older may contribute additional catch-up contributions (over the annual deferral limit) to their 401(k), 403(b), or SIMPLE plan account. For 2024, the catch-up contribution amount is $7,500 for 401(k) and 403(b) plans, and $3,500 for SIMPLE plans.

Beginning in 2025, SECURE 2.0 establishes an even higher catch-up contribution limit for participants aged 60-63. The higher catch-up limit for 401(k) and 403(b) plans will be the greater of $10,000 or 150% of the regular catch-up limit for 2024. For SIMPLE plans, the higher catch-up limit will be the greater of $5,000 or 150% of the regular catch-up limit for 2025.

Section 110: Student Loan Payment Matching

Congress recognized that many workers who would otherwise contribute regularly to their defined contribution plans are unable to do so while paying down student loan debt. SECURE 2.0 permits employers to assist these employees with saving while they continue paying down the debt. For plan years after 2023, employers may make matching contributions on employees' "qualified student loan payments" (QSLPs). This provision applies to 401(k), 403(b), governmental 457(b) and SIMPLE IRA plans.

QSLPs are payments the employee makes to repay a qualified education loan incurred by the employee to pay qualified higher education expenses of either the employee or the employee's spouse or dependent. The employee must certify to the employer that the QSLPs were paid and the amounts.

The employer must apply the same matching formula and vesting schedule to QSLPs as to elective deferrals. All employees eligible to receive matching on elective deferrals must also be eligible to receive matching on QSLPS. The employee's combined QSLPs and elective deferrals may not exceed the applicable deferral limit for the year.

Certain aspects of this process remain unclear without further IRS guidance. An employer considering implementing student loan payment matching should discuss implications with their plan service provider.

Sections 117: Contribution Limit for SIMPLE Plans

SECURE 2.0 included some provisions specifically benefiting small employer plans to incentivize higher contributions from both employees and employers. One of those provisions increased the elective deferral and catch-up contribution limits for SIMPLE IRAs and SIMPLE 401(k) plans. SIMPLE plans have lower elective deferral and catch-up contribution limits ($16,000 and $3,500 respectively for 2024) than the regular 401(k) limits, and both are subject to a mandatory 3% employer matching contribution or a 2% employer non-elective contribution.

Under the new rules effective in 2024, the annual limits in the SIMPLE plan of an eligible employer with 25 or fewer employees are increased to 110% of the of the regular SIMPLE limits for 2024 and then indexed for inflation. An eligible employer with 26-100 employees may permit employees to take advantage of the increased limits but only if the employer increases the required employer contributions to either a 4% match or 3% non-elective contribution. The eligible employer cannot have maintained a qualified retirement plan covering substantially the same employees during the three years prior to maintaining the SIMPLE plan.

If an employer currently sponsors or is interested in sponsoring a SIMPLE IRA or 401(k) plan, they should consult the plan service provider to ensure compliance with these more generous contribution limits. They should also be mindful that changes in employee headcount could affect their ability to both sponsor SIMPLE plans and take advantage of the increased limits.

Section 121: Starter Plans

SECURE 2.0 created the new starter 401(k) or 403(b) plan type to simplify the adoption and administration of plans provided the employer doesn't maintain a different qualified retirement plan in the same year. This option is available beginning in 2024.

Employees participating in the Starter plan must be automatically enrolled at a contribution rate between 3% and 15%, as specified by the plan, and must be given an opportunity to opt out or change their contribution rate. The maximum annual contribution per employee is $6,000 (for 2024) and the maximum catchup contribution for employees aged 50 or older is $1,000 (for 2024). Employer contributions of any kind, either non-elective or matching, are prohibited. The plan is treated as automatically satisfying nondiscrimination testing and is deemed to not be top heavy.

This new plan type may appeal to a broad range of employers looking to offer an easily administrable method of retirement savings to its employee population. As always, a plan provider should be consulted prior to adoption.

Section 125: Expanded Eligibility for Long-Term Part-Time (LTPT) Employees

The expansion of defined contribution plan eligibility for long-term part-time (LTPT) employees was first adopted in the original SECURE Act. To broaden access to retirement savings, the SECURE Act required 401(k) plans to extend optional participation to employees who completed a minimum of 500 hours of service during each of three consecutive 12-month periods. The first year of eligibility for LTPT employees was 2024.

SECURE 2.0 expanded application of the LTPT eligibility requirements to ERISA 403(b) plans and decreased the lookback period for LTPT eligibility from three to two consecutive 12-month periods. Under the new provision, the first year of eligibility for LTPT employees with two consecutive periods will be 2025.

Given the complexity and variability of rules surrounding LTPT eligibility, any employer sponsoring a 401(k) or 403(b) plan should consult their plan service provider about how best to comply.

Note: Employers may choose to exclude LTPT employees from receiving matching, safe harbor, and profit-sharing contributions.

Section 306: Eliminate the "first day of the month" Rule for Governmental Section of 457(b) Plans

SECURE 2.0 eliminated the "first day of the month" rule for governmental 457(b) plans, allowing participants to change their salary deferrals at any time during the month if the deferral agreement is completed before the compensation is made available to them. Tax-exempt 457(b) plans must still require deferral rate changes prior to the month in which the compensation deferred is earned.

Section 601: SIMPLE and SEP Roth IRAs

Under SECURE 2.0, employers may permit employees participating in a SIMPLE IRA plan or a simplified employee pension ("SEP") arrangement to elect a Roth IRA for receipt of participant and employer contributions (as applicable) on an after-tax basis. Employers may continue to permit only traditional IRAs. Participant contributions treated as Roth contributions must be included in income in the year deducted from wages, and Employer contributions treated as Roth contributions must be included in income in the year contributed to the IRA. This option was available beginning in 2023.

Given the complexity of recordkeeping and tax reporting rules, employers should consult their plan service provider and payroll provider about how to comply.

Section 604: Roth Employer Contributions

A central component of SECURE 2.0 is the expansion of optional Roth treatment to employer contributions in a 401(k), 403(b), or governmental 457(b) plan. Employers may give participants the option to elect Roth treatment of employer matching and/or non-elective contributions. If permitted by the plan and elected by the employee, the Roth-designated contributions must be included in income in the year of contribution rather than at the time of distribution. Roth contributions must be fully vested and tracked separately. This option was available beginning in 2023.

Due to the intricate nature of recordkeeping and tax reporting regulations, employers are advised to seek guidance from their plan service provider and payroll provider to ensure compliance.