FEBRUARY 27, 2023

AGENDA ITEM 6
INFORMATION ITEM

CALSAVERS RETIREMENT SAVINGS BOARD

Summary of 'SECURE 2.0 Act of 2022' Included in the Consolidated Appropriations Act of 2023

Summary
The CalSavers Retirement Savings Board (Board) will hear a summary of the provisions included in the SECURE 2.0 Act of 2022 as included in the Consolidated Appropriations Act of 2023.

Background
On December 29, 2022, President Biden signed the Consolidated Appropriations Act of 2023 into law. The law contained over 90 provisions related to retirement, which are often referred to as the "SECURE 2.0 Act of 2022."

The provisions are aimed at improving retirement savings by incentivizing employer sponsorship of plans through changes to tax credits for employers and lower-income savers, through changes to plan rules to require automatic enrollment and improve nondiscrimination rules, and through changes to contribution amounts, among a variety of other changes.

Detail
This item is not intended to be an exhaustive summary of each provision of the bill. Many of the provisions directly impact 401(k), 403(b), 457(b), or SIMPLE IRA plans and do not affect the laws governing state-facilitated retirement programs like CalSavers. The provisions discussed in this item, however, may improve the likelihood of a low-income saver to participate in the program, increase private-sector options for employers to satisfy the mandate, and could improve retirement security broadly. Sections of the law that could have direct impacts on CalSavers participants or the operation of the program are flagged with an asterisk.

I. Savings – Credits and Rules

<u>*Saver's "Match" (modifies former Saver's Credit) – Refundability and Simplification</u>

- Credit will become refundable if contributed directly into retirement account
- Simplifies structure by removing tiers based on income
- Tax credit of 50% of contributions made in taxable year
- Credit phases out starting at $20,500 single/$30,750 head of household/$41,000 joint income
- Credit treated as pre-tax contribution (Traditional)

    - Process for eligible Roth IRA holders to receive the deposits to be determined through the rulemaking process; staff are engaging with regulators and policymakers with the goal of simplifying the experience for CalSavers participants.
- Effective in 2027

<u>Catch-up Contributions – Expanded for Ages 60-63</u>
- 401(k), 403(b) & 457(b) - increased to greater of $10,000 or 150% of regular 2024 catch-up contribution amount
- SIMPLE – increased to greater of $5,000 or 150% of regular catch-up contribution amount
- Catch-up contributions required to be Roth if income above $145,000; to be adjusted annually based on inflation
- Effective: 2025 for increased catch-up contributions; 2024 for Roth requirement

<u>Required Minimum Distributions – Increase in Ages</u>
- Increase from age 72 → 73 in 2023 and up to age 75 by 2033

II. Plan Design

<u>Automatic Enrollment – Required in newly established 401(k) and 403(b) plans</u>
- Required default contribution rate between 3% and 10% of pay
- Exempt: church, government, or SIMPLE plans; employers with <10 employees; and employers established within three years of effective date
- Effective in 2025

<u>Automatic Escalation – Required in newly-established 401(k) and 403(b) plans</u>
- Required automatic escalation of 1% annually; sponsors can set cap between 10-15%

<u>*"Starter 401(k)" & "Safe Harbor 403(b) Plans</u>
- New plan types created for employers with no retirement plan
- Requires automatic enrollment of all employees
- Default contribution rates of 3% to 15%
- Annual contribution limit nearly the same as IRAs; starts at $6,000 and increases with inflation
- Effective in 2024

<u>Employer Matches for Student Debt Contributions</u>
- Permits employers to treat employee contribution to pay student loan debt as elective deferrals for the purpose of making matching contributions to the employees' 401(k), 403(b), 457(b), or SIMPLE IRA.
- Effective in 2024

*Annual $1,000 Emergency Withdrawals

- Sponsors may allow annual emergency withdrawals up to $1,000 for emergency expenses that are exempt from 10% penalty for early withdrawals
- Plans may rely on participant's attestation as evidence of need
- Withdrawals must be repaid within three years to remain tax-free
- Effective in 2024

Emergency Savings Accounts

- Employers may choose to offer post-tax emergency savings accounts
- Employers may use automatic enrollment for the accounts
- Default contribution rate capped at 3% of compensation
- Cannot use a qualified default investment alternative (QDIA)
- Contributions capped at $2,500 (adjusted for inflation after 2024); contributions beyond cap go to plan
- No employer match to emergency savings account, but employers can make matching contributions to plan
- Investment options limited to cash or principal preservation vehicles
- Effective in 2024

Improvements to Non-Discrimination Rules

- Employers required to provide employee access to retirement plan if employed at least two years (reduced from three)
- Effective in 2025

*Paper Statement Requirements (evaluating applicability for program)

- Reduces requirement for paper statement delivery from at least quarterly to at least annually;
- Allows for automatic enrollment into e-delivery, codifying 2020 DOL rulemaking
- Effective in 2026

III. Other – Credits, Regulations, and Guidance

*Retirement Savings Lost and Found

- U.S. Department of Labor compelled to create "Lost and Found" database for missing, lost, or non-responsive plan participants
- Required to be established within two years (~end of 2024)

*Adjustments to Tax Credits for Small Employer Plan Startup Costs and Matching Contributions

- Employers with fewer than 50 employees eligible for credit covering up to 100% of admin costs; phase out for employers with 51-100 employees.
- Up to $1,000 credit per employee for employer contributions: 100% in year 1; 75% in year 2; 50% in year 3; and 25% in year 4
- Credit is equal to percentage of employer contributions, up to $1,000 per employee
- Credit capped at $5,000 annually, collectible for up to three years
- Effective for 2023 tax year and beyond