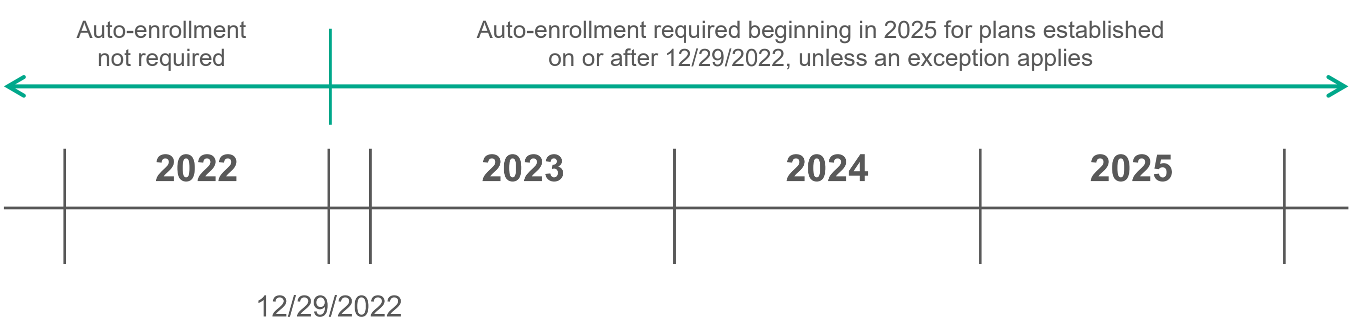
SECURE 2.0

SECURE 2.0 Requires New Plans to Contain Automatic Enrollment Feature

Credible studies have concluded that employers who automatically enroll plan participants into a retirement plan help place them on a lifetime path to meaningful savings. Because auto-enrollment is so effective, Congress has included in the SECURE 2.0 Act a provision that will require most newly established 401(k) and 403(b) plans to include such a feature, starting in the 2025 plan year.

Auto-Enrollment Applies to Plans Established on or After December 29, 2022

This is perhaps the most important detail in this provision: Although affected employers need not adopt the auto-enrollment feature until the 2025 plan year, it will be required in most plans if they were not established before December 29, 2022. So employers establishing a new retirement plan should consider including this auto-enrollment feature now to avoid an additional amendment for the 2025 plan year.



Some employers and plan types are exempt from this requirement

- Small businesses—that normally employ 10 or fewer employees
- New businesses—those in existence for less than three years
- SIMPLE 401(k) plans
- Church plans and governmental plans

Each employer in a multiple employer plan (MEP) or pooled employer plan (PEP) is considered separately when determining whether the plan is exempt. For example, an employer that establishes a plan by joining a MEP or PEP on or after December 29, 2022, is subject to the auto-enrollment rule even if the MEP or PEP was established before that date.

Auto-Enrollment Features

Beginning with the 2025 plan year, an automatic-enrollment component must contain the following features.

- An eligible automatic contribution arrangement (EACA)—which must allow permissible withdrawals
- An initial auto-enrollment rate of at least 3%, but not more than 10%, which must increase by 1% on the first day of each plan year until reaching at least 10%, but not more than 15% (10% for nonsafe harbor plans until the 2025 plan year)
- Absent a participant's investment election, assets must be placed in a qualified default investment alternative (QDIA) to preserve principal
- Employers must allow participants to elect to defer at a higher or lower percentage than is required by the auto-enrollment rules—or elect not to defer at all

The automatic-enrollment provision has proven its value for years. In 2025, it will be required of most employers who establish a 401(k) or 403(b) plan on or after December 29, 2022. Consequently, it might make sense to get on board now.

Possible Tax Credit

The SECURE Act of 2019 (SECURE 1.0) provides a $500 per year tax credit to qualified employers that include an EACA in their 401(k) plan. The credit is available to both new and existing plans, but to small employers only (those who had 100 or fewer employees who received at least $5,000 compensation from the employer for the preceding calendar year). This credit is available for up to three years beginning with the first year for which employers include an EACA in an existing or new plan. Employers should consult their tax advisor to determine eligibility for this credit.