Enhancements to Retirement Savings Plans

Background: Three bills introduced in this Congress are likely to provide the building blocks for bipartisan retirement reform legislation. They are the Securing a Strong Retirement Act of 2021, sponsored by House Ways and Means Committee Chairman Neal (D-MA) and Ranking Member Brady (R-TX), the Retirement Security and Savings Act of 2021, sponsored by Senators Cardin (D-MD) and Portman (R-OH), and the Improving Access to Retirement Savings Act, sponsored by Senators Grassley (R-IA), Hassan (D-NH), and Lankford (R-OK). Among other benefits, these bills would increase the ability of older employees to make "catch-up" contributions to retirement plans, provide more opportunities and incentives for small employers to offer retirement plans, and offer plan owners more flexibility in their retirement planning,

These bills build on the original SECURE Act enacted in 2019 (P.L. 116-94), intended to ensure that more Americans can retire comfortably and provide their families with financial security.

Securing a Strong Retirement Act, H.R. 2954, Introduced by Reps. Neal and Brady

House Ways and Means Committee Chairman Richard E. Neal (D-MA) and Ranking Member Kevin Brady (R-TX) have introduced the Securing a Strong Retirement Act of 2021, referred to as "SECURE Act 2.0. It passed unanimously out of committee and was approved by the House by a vote of 414-5. As passed by the House, the bill included ERISA provisions approved by the House Education and Labor Committee in the RISE Act. The bill is currently pending in the Senate, referred to the Finance Committee.

NAIFA has long advocated for many of the provisions in SECURE 2.0 and supports the House-passed bill. It includes 49 provisions aimed at simplifying and further encouraging the establishment of retirement savings plans. Among the key provisions are the following:

- An automatic enrollment requirement for 401(k) and 403(b) plans
- A phased-in increase in the age when the required minimum distributions (RMDs) begin (from current law age 72 to age 75 by 2033)
- An increase in catch-up contributions limits for people aged 62, 63, and 64 to $10,000, indexed—these will have to be Roth contributions (i.e., after-tax contributions and tax-free distributions) among those eligible to participate
- The ability to count student loan payments as plan contributions eligible for the employer match
- Authority for 403(b) plans to participate in MEPs (and PEPs) and an enhanced start-up credit for plans that join an MEP or PEP
- Under the bill, plans can more easily offer lifetime payment options by "removing barriers" to the use of annuities, including longevity annuity benefits and insurance-focused ETF funds.

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Retirement Security and Savings Act, S. 1770 (Senators Cardin and Portman)

Senators Cardin and Portman have introduced the Retirement Savings and Security Act, which includes many provisions also found in the House "Secure 2.0" bill.

A few of the many provisions in the Retirement Security and Savings Act that will help Americans achieve their retirement goals include:

- New automatic enrollment safe harbor (the "Secure Deferral Arrangement" or SDA) that would be in addition to the existing safe harbor—generally, the new SDA would apply to after-tax contributions and tax-excludible contributions.
- An increased start-up retirement plan credit for small employers—the Cardin-Portman bill increases the credit to 75 percent while the Neal-Brady bill increases it to 100 percent.
- A new three-year $500 annual tax credit for small employer plans with an automatic re-enrollment provision.
- An increase in the required minimum distribution (RMD) age from 72 to 75 as of 2022—the House bill phases in the RMD age increase until it reaches age 75 in 2032. Cardin-Portman also creates an exemption from RMD rules for individuals with $100,000 or less aggregate account balances.
- A reduction in the RMD excise tax from 50 percent to 25 percent and 10 percent if the failure to take an RMD was inadvertent and corrected in a timely manner.
- Modification of annuity RMD rules allows automatic increases in certain annuity payments (generally, those payments increase by less than five percent/year).
- Clarification that lump-sum distributions from annuity contracts can be treated as lump-sum distributions from the plan.
- An increase in the limit on QLACs premiums from $135,000 to $200,000, indexed.
- Extension of rules governing direct contributions to charities from IRAs to 401(a), 457(b), and 403(b) plans, SEPs and SIMPLE IRAs.

This bill is currently pending in the Senate Finance Committee.

Improving Access to Retirement Savings Act, S. 1703 (Senators Grassley, Hassan, and Lankford)

Senators Grassley (R-IA), Hassan (D-NH), and Lankford (R-OK) have introduced the Improving Access to Retirement Savings Act. The Improving Access to Retirement Savings Act will allow more small businesses and nonprofits to participate in MEPs by allowing 403(b) plans prevalent among tax-exempt organizations. It also clarifies that small employers that join an MEP may take the small employer pension plan start-up credit for their first three years in an MEP, regardless of how long the MEP has been in existence.

Additionally, this legislation allows for a grace period to correct reasonable errors in administering automatic enrollment and escalation features when groups enroll in an MEP, provided they are corrected within 9 ½ months of the end of the year in which the mistakes were made. Finally, it would provide employers additional time to make retroactive plan amendments that increase benefits for employees.

This bill is currently pending in the Senate Finance Committee.

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Additional Senate Retirement Security Bills

Senators Booker (D-NJ) and Young (R-IN) have joined forces to introduce two other retirement security bills that could potentially move forward in the larger Secure 2.0 legislation. The Strengthen Financial Security Through Short-Term Savings Account Act of 2021 would provide for the creation of savings accounts funded by automatic employee payroll deductions. The account is capped at $10,000 and is available for short-term financial needs. The Retirement Security Flexibility Act of 2021 would expand access to workplace retirement plans by giving employers more flexibility when setting up 401(k) plans for their employees. The bill would also make it easier for savers to auto-enroll into long-term savings plans and more quickly escalate their savings.

POSITION: NAIFA strongly supports bipartisan legislation to help Americans better prepare for retirement. NAIFA members work directly in communities across the United States with business owners and families to encourage retirement planning. The SECURE Act, enacted in 2019 and strongly supported by NAIFA, was a great start; the pending retirement legislation will build on that law to ensure that even more Americans can retire comfortably and provide their families with financial security.

While NAIFA supports the pending retirement legislation, we continue to work to make improvements to these bills. NAIFA, for example, has suggested adding a plan aggregation provision to enable plan participants to choose how to meet their RMD obligations.

All these bills will better prepare Americans for a secure retirement. That, in turn, could finally discourage states from seeking to create state-run, mandated payroll deduction ROTH IRA type programs that are costly to participants, create a disincentive for employers to offer full 401(k) plans (with employer matching, diverse investment options, and higher contribution levels) and could hurt overall retirement readiness.

NAIFA urges Congress to act on the pending bipartisan retirement legislation and send it to the President.

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