Transforming Financial Wellness with SECURE 2.0

When SECURE 2.0 passed in December 2022, much of the initial focus surrounded its mandatory provisions, some of which went into effect almost immediately. Plan sponsors and their recordkeeping partners had to react quickly. Now, they’re thinking about what’s next.

The Big Picture

One of the SECURE 2.0’s primary goals is to tackle the most common reasons employees choose not to participate in their employer-sponsored retirement plans. These include a lack of awareness about benefits, plan uses and advantages, and the sheer complexity of most retirement savings plans.

But perhaps the biggest reason employees don’t participate is that many feel they simply can’t afford to. As Pew Charitable Trusts reports, a full 43.5 percent of full-time workers who don’t participate in their employer’s plans cite affordability as the primary reason.

“If you can’t meet your financial obligations now, it’s almost impossible to think about what your finances could look like in the future,” says Chris Whitlow, head of CAPTRUST at Work, the firm’s employee-focused financial wellness solution. “SECURE 2.0 tries to help solve this challenge for people in all different career stages.”

Retirement as One Part of Financial Wellness

Not surprisingly, the act contains multiple retirement-centered provisions directed at employees in the final decade of their careers, but there are also provisions designed to help people in early and mid-career stages. “The overall effect is that SECURE 2.0 reframes retirement as one piece of each person’s bigger financial wellness picture,” says Whitlow.

As an example, Whitlow points to emergency savings accounts. These accounts provide a financial buffer for unexpected expenses, reducing the need for employees to dip into their retirement savings prematurely. "Having enough money set aside for potential emergencies is one of the biggest financial insecurities that often prevents employees from committing to long-term savings," he says.

SECURE 2.0 permits employers to offer an emergency savings distribution option of $1,000 per year that can be repaid to the plan over a three-year period, with participants self-certifying the need for a distribution. Having an emergency savings option enhances employees' ability to access money when it's truly necessary but could increase plan leakage over time.

For that reason, and because of the heavy work involved in integrating emergency savings funds into plan designs, some sponsors are providing emergency savings outside of their retirement plans, says Mike Webb, CAPTRUST senior manager of plan consulting. "It's another way of encouraging overall savings, and a savings mindset."

"Having an emergency savings account reduces financial stress," says Webb. "When you know you have enough money to deal with unexpected events, then you're more likely to save for retirement. You're more likely to participate in your employer's retirement plan."

However, for plan sponsors interested in offering emergency savings accounts, there are other ways to achieve the same goal, says Lisa Keith, CAPTRUST senior manager of plan consulting. "Alternate plan design options, like after-tax contributions, can help with savings without the complexity of emergency savings provisions."

Regardless of how plan sponsors decide to bring these provisions to life, the point is that they are discussing employee benefits in new and bigger ways. "SECURE 2.0 encourages employers to consider the broader financial well-being of their employees, beyond retirement readiness," says Whitlow. "It helps change the way people think about saving and about their retirement plans."

Shifting the Mindset around Saving and Spending

This shift is necessary to encourage long-term savings among employees. It also may help reduce financial stress.

The integration of student loan matching is a prime example. "This is a game-changer for young professionals burdened with debt," says Whitlow. An employee who is currently repaying student loans might find it challenging to allocate funds toward their retirement savings, especially when retirement is three or four decades away.

Through student loan repayment matching, employers can balance an employee's student loan repayments with contributions to their retirement plan, thereby facilitating both debt repayment and retirement savings simultaneously. Provisions like this allow the employee to see an immediate benefit while also securing their financial future. This, in turn, can help improve overall financial well-being.

Over time, plan sponsors may find that SECURE 2.0's focus on financial wellness leads to higher employee satisfaction and retention. “When employees know their employers are truly invested in their financial well-being, it fosters a sense of loyalty and commitment,” says Keith.

Putting Savings on Autopilot

Automatic enrollment is another feature that can help combat inertia and ensure employees start saving early in their careers. Beginning in 2025, SECURE 2.0 requires new 401(k) and 403(b) plans (and plan sponsors who newly adopt a multiemployer plan, or MEP) to include automatic enrollment with a minimum default rate of 3 percent, up to a maximum of 10 percent.

Although auto-enrollment is not required for existing plans, it is highly recommended and has been proven to substantially improve retirement readiness. This is because it removes the burden of actively opting into the plan.

Also, when employees are automatically enrolled, the vast majority will choose to stay. Research from Vanguard shows that auto-enrollment can increase participation by 30 percent or more, with more than three-quarters of plan participants remaining exclusively invested in the default fund three years later.

“Auto-enrollment is key to improving saving behavior, especially for younger employees,” says Keith. “I bet my own sons wouldn’t have money in their 401(k) plans if it weren’t for automatic enrollment.”

When coupled with automatic escalation, auto-enrollment can also ensure that contributions increase gradually over time, helping employees save more as their earnings grow. “We used to see a lot of employers starting auto-enrollment at 3 percent, but now we’re seeing default rates increase to around 6 percent,” says Keith. “Truthfully, I don’t think 3 percent was ever really adequate. It was a good start, but it’s not enough anymore. Continuing to auto-escalate helps people contribute more as they earn more, and it trains their brains to prioritize saving.”

By changing how employees think about and engage in saving, the SECURE 2.0 Act encourages a more proactive and positive approach to financial planning.

Challenges in Integrating SECURE 2.0 Provisions

Despite the potential benefits of the act, plan sponsors face significant challenges integrating its provisions to existing retirement plans. The complexity of new features and the need for administrative adjustments can be daunting. “But from a participant’s standpoint, many of these provisions are worth the work,” says Keith.

One of the main challenges is the effort required to update plan designs and administrative systems. “The operational complexities of offering things like emergency savings accounts and student loan matching are not insignificant,” says Webb. “Right now, plan sponsors are laying out years-long roadmaps to determine which of the optional provisions they’re going to offer, and when. They’re working with vendors and recordkeepers to build these things out as fast as possible, but it’s going to take time."

Another challenge is ensuring clear communication and guidance to participants about new features. "Employees can't use a feature if they don't know it exists, don't understand its benefits, or simply don't know how to get started," says Whitlow.

To facilitate the integration of these provisions, plan sponsors must invest in clear, continued education and communication. "Ongoing training is essential to ensure that plan administrators and employees understand the benefits and logistics of the new provisions," says Keith.

Plan sponsors should also consider leveraging technology to streamline the implementation process. Advanced recordkeeping and automated systems can significantly reduce the administrative burden and improve the accuracy and efficiency of managing new features.

Furthermore, collaboration with service providers and consultants can help plan sponsors navigate the complexities of SECURE 2.0 and any future legislation or regulation.

In addition to technological and consultative support, plan sponsors should actively seek feedback from their employees and plan participants to ensure that plan design changes and new features meet their needs and expectations. "Regularly soliciting feedback from employees can help identify any issues early on and ensure the plan design is aligned with participant needs," says Webb.

By reframing retirement readiness as one part of overall financial well-being, SECURE 2.0 offers the opportunity for plan sponsors to provide employees with a balance of long-term planning and an enhanced ability to meet near-term financial needs. Ultimately, the success of integrating these provisions depends on the commitment of plan sponsors to embrace this new model of financial wellness programs.

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