

Please note: This is a transcription so there may be slight grammatical errors.

Speaker 1:

Hello, everyone and welcome to today's webinar, Anticipating Secure 2.0 changes. I would now like to introduce Jennifer Doss, senior director, defined contribution practice leader at CAPTRUST. Jennifer?

Jennifer Doss:

Thank you, Kara. I appreciate everyone being here today. Thanks for the introduction. Welcome everyone to our Secure 2.0 ACT webinar. I know that most folks by now attending this call have probably been on a lot of Secure 2.0 webinars since January. It's only been a few months, but I'm sure if you're like me, it's been crazy the amount of information you've been trying to absorb. But today we do hope to provide you with some more targeted information on a few of the provisions that we seem to be getting a lot of questions on, or the most questions on about from our plan sponsors and some insight in that regard. To do that, I do have two colleagues with me today, Dawn McPherson and Jean Duffy. Dawn joined CAPTRUST in 2022 and she's responsible for the development of our consulting services to address the needs of CAPTRUST clients. She oversees ERISA technical issues and overall fiduciary needs for our clients. She's based in Kansas City.

And Jean Duffy joined in 2010 and she serves as a senior vice president in financial advisor as a retirement plan consultant to corporate fiduciary. She's motivated to improve retirement plan outcomes for plan sponsors and their participants. And Jean is based out of Iowa. Thank you both for joining me today. I talk about our favorite topic. Again, I know that that's the topic [inaudible] right now. I think we're going to dive right in. Dawn, why don't you start off our conversation today, maybe talking a little bit about where we are today, maybe the state of affairs for plan sponsors, if you will.

Dawn McPherson:

Sure. Thanks Jennifer. As Jennifer said, I'm sure most of you have been inundated with Secure 2.0 information and it includes a wide range of change across the retirement landscape and the changes are effective at various times over the next decade. With effective dates stretching over the next 10 years, it's causing reactions on each end of the spectrum. We have some employers or plan sponsors who are in panic mode wondering, "How do I implement all of this now?" And then we have other sponsors who seem to be on the opposite end of the spectrum where they're thinking, "There was only one mandatory provision, it's my record keeper took care of that for 23. I can table this focus on my day-to-day job and we'll revisit this later when things are more timely."

I would argue or this group would argue with you that there's a middle ground here. And while we certainly don't want you panicking, there are things you can start doing now that will ease decision making and implementation and will potentially save you some time down the road. Today we're hoping to share some suggestions on how you can tackle Secure 2.0 for your plan and participants. And we're also going to share with you some observations or considerations on a handful of the various provisions. We're going to move pretty quickly, but don't be concerned. We'll conclude by summarizing a few action items that will get you started.

Let's just start by talking about a timeline, and you see a timeline on your screens now if you're looking at your screen. This timeline in particular that we've put together focuses on the 401k plans. And you'll notice within the timeline, and we'll flip through pages here shortly, the timeline is broken down by years. I mentioned that the various effective dates spread over 10 years, which effectively builds out this natural timeline, but it's very broad, so it's broken down. This one in particular I noted is by 401k plans. It's broken down by years and then within the timeline there's a handful of mandatory provisions that

are called out that you'll be required to implement, but the vast majority of these provisions are optional. You're going to want to consider them, but ultimately you can adopt them at your discretion.

A great starting point for you is to begin developing your own timeline that's customized for your plan and participants. All of these changes present you with a pretty unique opportunity for you and your committee members to just step back and holistically review your current plan design elements, maybe reevaluate your employee population and their needs, and start discussing the appropriateness or your appetite for these various optional provisions. Some optional changes could present additional plan expenses. They could require payroll and HR system updates. Early discussions will allow you to start budgeting and planning for those changes now.

The deeper dive review is an opportunity for you to develop your timeline and prioritize these changes that are happening soon, the changes that will be a delayed for a few years, which you'll see as we step through a few of the provisions and any optional enhancements that you'd like to include along the way. You don't have to tackle everything at once, which is great news, but once you get started, you might find that you're quickly able to eliminate some of the optional provisions that simply don't fit your goals. They don't fit the goals of your plan, they don't fit the needs of your employees, or they don't fit within your budget for this year or next year.

Starting with these internal conversations will not only help you construct your own timeline for your plan, but it's also going to help to tee up what will be your next step, and that's scheduling external conversations with your plan providers, so talking to your record keepers, payroll providers, third party administrators and so on. I'm going to pause here, and Jean, I'm coming over to you. And with all of this as a backdrop and looking at the timeline and understanding that everything is spread over 10 years and driven by dates and mandatory versus optional, I want to shift to your daily conversations that you're having with clients. What are they focused on right now or what questions are you getting currently?

Jean Duffy:

Yeah, I'd be happy to, Dawn. I think one of the first questions I got was around this last column on this slide here. The optional treatment of employer contributions is Roth. Within days of it being signed, hearing from employers who their employees were already asking about it. Like, "Hey, I heard I can choose to have my employer contributions contributed as Roth." And for young employees, I think that would be really attractive. Young, well paid, well-educated employees, I think that's going to be one of the considerations. This option is optional. It allows an employer to add the provision that would allow the employee to choose if they wanted to take the employer contribution as pre-tax or Roth. Obviously, in the past it's only been set up as pre-tax. The employer could allow for matching, non-elective or both. In this case, there is a big catch on this one, however.

The way that it is written that right now you can only do it for contributions that are 100 percent vested. If you have an employer who has a matching contribution that's 100 percent vested, would certainly be easier than for someone who doesn't. That might be a deal breaker if they don't have that 100 percent vested. The amendment clearly states that only if such contribution is non-forfeitable at the time it's received, could this provision be used. A little bit of a catch. I think it's certainly the concept is great. I think a lot of employers are going to be interested in it and are interested in it. I think a lot of employees are going to be interested in it, but it's certainly one right now that as we're having those conversations, the takeaway is pause. Let's pause for a minute. We don't have enough clarity around this.

I think it brings up some additional questions around how do the employees elect it? What does that look like on the record keeping system, how does the payroll handle it? This is now money that would be taxable to the employee even though it's an employer contribution. How are those taxes going to be

handled? I think there's a lot of questions to be answered both around payroll as well as around the record keeping side. We think, certainly like you said, Dawn, this is going to be an important provision to start having the conversations early with your payroll providers, with your record keepers, trying to figure out how this would work. I think one of the other things is then to think beyond that, how do we educate employees about this? That would be the next step if we decide like, "Hey, I think this is going to be a good provision," and one that we probably want to consider adding.

What is after we get past the discussions with the record keeper and payroll providers, what do those discussions with the employees look like? I think in the meantime, another thing for employers or plan sponsors to consider would be the opportunity of adding an in-plan Roth conversion. Allowing employees simply to take the money that's already been put in pre-tax and convert it to Roth if they'd like to do that. I think there is something that still helps solve for this without getting to the point of adding the optional treatment of employer contributions as Roth. I do think it is a good provision, but I think there's still a lot of questions out there. My plan sponsors, my clients, were having the conversations, at the end of it they're saying, "No, we're waiting, we're waiting. We don't want to be the first one to take this race on." That's the most important conversation or questions I'm hearing from my plan sponsors right now.

Dawn McPherson:

Well, thanks, Jean. And on the heels of that, I think we saw a lot of the provisions focused around Roth. And so, with that I think I'll go ahead and step into the next slide and talk about the catchup contributions being... And this is a mandatory provision, so you all likely know that catch-up provisions are a great way for participants who may have started later in their savings to make additional contributions to the plan, or it could just be a good opportunity for them to save more once they reach a certain age. Under the current rules, employees could contribute additional tax deferred dollars, which was their catch-up contribution starting in the year that they turned 50. Effective in 2024, all catch-up contributions for high income earners. High income earners are defined currently as individuals earning more than \$145,000 per year. All catch-up contributions for those high income earners must be made as Roth.

This provision means that any plan offering catch-up contributions but not currently offering Roth will need to either add Roth or eliminate their catch-up, which I would not think that the latter option, it just doesn't seem very likely. It seems that this provision will only help to expand the availability of Roth contributions across employer sponsored plans. Another provision that I think we're getting... Well, it's been a hot topic and an area of concern. I know the three of you or the two of you on this call, the three of us on the call would agree that it's been a hot topic for some time. This is an optional provision, but it's going to likely be pretty popular with some employers relates to student loan debt. We know that employees with student loan debt have often had a pretty difficult time deciding whether to make their loan payments or contribute to the retirement plan, and it wasn't often possible for them to do both.

And to date, employers were only able to match employees deferrals that were pre-tax Roth or after tax. This scenario caused these individuals who were focused on doing what was most prudent for them, which was paying down their student loan debt. In lieu of contributing to the plan, they were missing out on those employer contributions and hindering their ability really to save for retirement. Effective in 2024, Secure 2.0 is offering this optional provision that will allow employers to match an employee's student loan repayments by making those matching contributions to the employer-sponsored plan. This is great, as it removes that tough decision for employees with student loans. They don't have to choose either or any longer. They can pay down their student loan debt and receive the employer matching contribution, which will allow them to start building that retirement savings.

Just a few other items around this. The provision allows employees to self-certify the amount of their qualified payment, which should help to ease the administrative burden and risk on employers just a bit. And then the new law also addresses the treatment of the employer match for testing purposes. Again, we're thinking this option will likely appeal to employers who hire a large number of college graduates and it's been a long time coming. Jennifer?

Jennifer Doss:

Yeah. Thank you, Dawn and Jean, those are helpful. I think I'll just hit on one of the other items. It's one topic but two provisions that we've been getting a lot of questions on, and that's emergency savings and there there's two of them. Again, both are optional. Plan sponsors could choose to offer one of them, both of them, neither of them. It's really up to you, which is really nice. They both become effective 2024, but this is another one where we're not sure if the record keepers will be quite ready to administer these starting in the beginning of 2024. Maybe it's towards the middle. We just really don't know at this point. Maybe some of them will be and some of them won't. There's actually two because there were two ideas within Congress of really how to solve for what they would call the emergency savings need for participants.

And because the two ideas were actually partisan at the time and the bill was meant to be bipartisan, they ultimately just decided to put both in and again, make them optional and let plan sponsors decide which they wanted to offer. I do think it's a broad generalization, obviously, to say that most Americans don't have enough money to cover \$1000 unforeseen emergency expense. However, that is true for a lot of people and I'm sure we all in our daily lives know people like that, right? Like, "Oh, I need new tires. Ooh, I don't have the money for it. I have to have tires to work." The question with all of these is, and we talked about this a little earlier, is it right for your population specifically? And really how does it fit with some of the other provisions that you may offer within your plan?

Just at a high level, the first emergency savings provision is \$1000 penalty free emergency withdrawal. It's pretty simple on the surface. Participants can also self-certify for this. That they have an emergency, which really is pretty broad by definition. It's really what they constitute as a unforeseen emergency. Unlike other withdrawals like a hardship where that plan sponsors may be more familiar with where, there's more of a definition of what constitutes that, and it's up to the participant to provide documentation and things like that. They're not required to confirm or anything like that. They don't have to only withdraw the amount equal to the actual need or anything like that. It really is just, again, very simple on the surface. And it generally makes sense, I think, that there would be just fewer restrictions on this money because it's a fairly small amount and you can only take a maximum of one per calendar year.

There's only so much damage, so to speak, you can do. Some things for plan sponsors, I think to consider is whether they feel that an emergency distribution is needed within their population base. Again, I think there's just some we've talked to that just say, "It's just going to add complication and confusion and we just don't hear a lot that people need it." Keep in mind the other thing is that while it is penalty free, it's not tax-free. Taxes have to be paid back on that money if you don't repay it back to the plan within three years. Additionally, if you don't repay it back either through a direct repayment of the money or through making additional contributions over time, you will have to wait three years before you can take another emergency withdrawal. This is where something that seems outwardly simple I think gets complicated.

If you already have loans and hardship distributions like many of you offer, this is another type of withdrawal that participants need to be educated on and to understand, which goes back to Jean's point about how are you going to communicate, how are you going to roll it out? It's also a little harder for

record keepers and TPAs to administer than you might think, because of some of the complexity I mentioned. The participant's ability to take an emergency withdrawal is dependent upon what calendar year they took, the last one, whether they've repaid the amount, which again, can be done through just normal contributions as well. It's not necessarily just a direct repayment. They may be eligible for one each calendar year or they may have to wait three years to take another one. It's not a clear cut answer. It's going to get complicated quickly.

Still simpler than the second emergency savings provision I will hit on, though, which is a sidecar account, what people are calling a sidecar account within the retirement plan. Basically an EM savings account, or you'll hear people call it an ESA. The ESA is only available for non highly compensated participants. The withdrawal's available for everybody. This one's only available for non highly compensated. Contributions to the account have to be Roth, so they're after tax, and the amount of contribution to the account can be up to \$2,500, a little bit more than the 1000 I just mentioned.

However, there's two details to note about that amount. It's 2,500 in contributions. Earnings on the contributions don't count towards that limit, and it's a total maximum amount that can be contributed of \$2,500. It's not an annual amount. You can't contribute \$2,500 a year or anything like that. Couple of other interesting details on the sidecar account. One, the money has to be invested in a certain type of capital preservation vehicle, most likely something that's not currently available in your plan. Two, participants have to have access to withdraw that money at least once a month. The third thing, employers cannot contribute directly to the sidecar account on behalf of participants, but if you do have a matching contribution, your contributions from your employee into that sidecar account have to be matched, basically as if they were the elective deferrals.

The last thing, when they withdraw the money, again, no less than once per month, they have to have access. It's not subject to taxes or any early withdrawal penalties because it is Roth. I think when we go through this one plan sponsors, they very quickly understand that this one's very complicated. And again, you think through how you're going to communicate these things, it's very different approach than the first one I just mentioned. And it sounds complicated to implement, which it is, whereas the first one sounds simple, but it's a little bit complicated underneath.

I think unfortunately that's going to be the case with a lot of these provisions. People may be reading some sort of overly simplistic article on the web talking about why wouldn't you offer your participants access to emergency savings? That seems like a no-brainer. But I think when you start to peel back the onion on some of these things, the devil's in the details so to speak. Now, I don't think that means that any of these are bad that we just talked about or that they're not going to be adopted because quite the contrary, I think they will. But I think our advice so far to plan sponsors and Jean, correct me where I'm wrong, is as fiduciaries, just really understand the pros and the cons and the ins and the outs, right, of any provision that you're considering adding to your plan.

All right, I think we'll move on from going over a few of those. Everybody's probably technically tired. I think going back to Dawn, what you were talking about, I think we'll take it up one step, one level. And now is a good time, we think, to talk and take a whiteboard approach to your plan design. Something we recommend to our clients, and it's also important to not only take that whiteboard approach and when you're doing that to know how it compares to other plans like yours, your peers. We offer our clients an annual plan design benchmark from a proprietary database to help drive that conversation and make sure that they're really staying up to date and competitive. Jean, you walk through this with clients all the time, and so I think you're probably best suited to do this. Can you walk us through how you use this data to talk about plan design with your clients and maybe how often you're having those conversations?

Jean Duffy:

I think when we talk about plan design with our clients, we like to do it once a year, go into a deep dive, and I think we start with making sure all the committee members are on the same page and understanding what does the plan design look like today? As we look at this page here, this is a page that we would use to set up an understanding of, "Just remember, this is how the plan design works today before we start digging in into any specific components." We would start at the top and show what their peer group is, what we're comparing them to based on their industry, their number of employees, whether it's plan type or plan assets, and we have the ability to show comparisons in each of those areas.

Then we do a quick refresh on, "Here's what you're using for eligibility," which is immediate in this case. What are we using for the qualified default investment alternative where we're defaulting people if they don't make their own investment election? Which is target date fund. Down below at the bottom section will show contributions. Are you doing employer match? Are we doing some type of non-matching contribution, and what is the total of the employer contribution? We'll look at the vesting schedule. What are we using for a vesting schedule? Sometimes there can be more than one vesting schedule, so we'll highlight that and if they're using a Roth feature.

Then on the next column we'll start talking about what are our auto enrollment features, are we auto enrolling and that what percent are we using auto increase and that what percent? We would normally see if this says, "Yes, auto enroll at 6%," and this says "Yes, auto increase," this would normally be one or 2%. we're talking about what are we also maximizing that auto increase to so many clients today might be auto enrolling at 6%, increasing 1% to either 10, 12, 15% on the cap side. We'll talk about if they have loans and then also what type of distribution options they offer. We'll make sure to set the stage with the committee and make sure everybody's on the same page of here's a quick snapshot of how the plan works today, and then we'll go into a number of pages if we could go to the next slide and show how that their plan design features compare to others in their industry or plan size.

As an example, this is one that simply talks about auto-enrollment and it's showing that the plan does have auto-enrollment. 54% of plans do auto-enroll, 76% of plans in their industry auto-enroll. And then you can see the other measurements. Down below, and probably the industry row is the one that I like to look at most with my clients of what are most plans in your industry doing in terms of auto enrollment percentage? We can see that 53% of plans in the industry are auto enrolling at 6%, which is what this client is doing. We can say, "You're right in with the average in your industry on where you're auto enrolling." And by the way, we think this is a really good number to be at for auto enrollment. 3% used to be the old way of doing things and then increasing beyond that. Now 6% is generally the number you want to start at.

I think, however, it's also important to have a conversation on all of these features, how does it work for your employee group and your culture? If you had a plan that, let's say, the match was 100 percent of five, it might make sense to auto enroll at five and increase from there. If you had a plan that matches 50% of eight, it might make sense to enroll at eight. Or if we feel that maybe is too aggressive, we might auto enroll at six or seven and increase them from there. But I think it's important to constantly keep your eye on your plan design and make sure it's working for you. And HR can usually give us some really good indications if they're things that they don't feel are working well. We do spend that time once a year. I think your idea, Jennifer, of whiteboarding and drawing some circles around some of these big features and main features would be a really good idea as people start to think about the provisions of Secure 2.0.

Jennifer Doss:

Yep. And [inaudible], if you want to go to the next slide, I think that's a good segue into, there's some things maybe if you talked about this a few years ago, it's different now, right? There's trends that emerge over the years that we see where people start to adopt things and becomes more commonplace. This is just showing an example, a look back we did from our plan design benchmark from the end of 2016 to the end of 2021 for our clients, and this is actually... This is very specific segment, so it's 401k over 250 million. We could slice and dice this a lot of different ways, but this is just an example to show you a couple of interesting trends I'd point out that we saw across many segments of our population. And the first is automation we've seen a general increase in the number of clients using automatic features, both automatic enrollment and automatic escalation.

For auto enrollment, in this particular segment, again, we see 52% of plan sponsors offering it versus the 48 five years ago. Again, some of the segments were more dramatic moving than others, but they were all generally trending in the same direction. You've seen a move towards defaulting at a higher rate, just like Jean was talking about. Maybe if your match is five, you start defaulting at five. People are starting to think more broadly about that than maybe they were a few years ago. I think if we pull it back and we compare it to maybe a broader survey, the plan to sponsor Council of America survey from 2022, which would be using 2021 data, almost 60% of the responding plans to that now have automatic enrollment. And then I think 78% of those that offer automatic enrollment also offer automatic escalation, and that number is rising over the year.

Again, many plans adopting that, many more than we've seen. I think the other items where we've seen generally more adoption trends that people should consider if they haven't or haven't adopted. Distribution options being a little bit more open with those, and then Roth deferrals and Roth options. Distribution options, you can see 59% of this segment now offers installments and 53% offer partial distributions, which I think are broadly considered to be more retiree friendly in a way to keep assets in the plan after retirement. And that's versus a 56 and 49% in 2016 respectively. Again, generally an increasing trend. PSEA data has very specific or similar trends as well.

And Roth may be where honestly we've seen the greatest trend over the past couple of years. I think just using the PSEA a data in 2016, about 63% of plans offered Roth. As of 2021, almost 88% do. I think one of you mentioned it earlier, but really with catch up contributions being so pervasive and they're going to require Roth going forward for those that meet those income requirements, we expect almost all plans really will offer Roth within a few years. But one of the things that Jean mentioned earlier that we're talking about is just because you offer Roth doesn't mean maybe you're taking advantage of some of the other provisions that could be related to it so that in plan Roth conversion. Again, almost 88% of clients offer Roth that responded to the PSCA survey, but only 60% of those offer the in-plan Roth conversion.

I think those are all things to consider and some of the bigger trends that we've been seeing with plan sponsors over the years. If you're not offering some of these things again, that may be perfectly reasonable, but if you haven't talked about them in a while, I think those are definitely some to make sure you dig into.

Dawn McPherson:

That's great. Talking about the tools and resources that will help you evaluate your plan design, gain a better understanding of what's happening across the industry as a whole, but also in your specific industry, which Jean talked about. We've mentioned that you want to start having these conversations internally, but you also want to start having them externally with plan providers. When you think about having these external conversations, make sure you're including all of your outside providers and engaging your advisor as well. You want to think about your record keeper. If you have a third party

administrator separate from the record keeper, include them. Payroll providers will be critical to some of these provisions. You want to think about your outside council, if you have an outside council, to engage on these conversations.

Start the conversations with these outside parties. You want to think about, what do we want the whole plan offering to look like? Get an understanding of what these providers are doing to make the provisions available. Are they building in-house solutions? Are they tethering themselves to an outside solution? When will these be available? What will the process to add the provision look like? Will it require additional time and resources for you to administer the provisions? It's not meant to scare you away or shy, shy away from them, but just contemplate all of these questions. How will these providers, your record keeping partner handle the amendment process? What's their timing look like? And ultimately just getting everyone on the same page will hopefully help create that shared understanding of your objectives, potentially help you when it comes to amendment time to consolidate those amendments, and just overall aid you in your planning for integrating or implementing these provisions.

You, as we've said before, might not have time to tackle all the provisions at once, but just start scheduling those conversations with your committee and outside providers and break them up into their effective dates. Take things that are available this year and next, look at key themes as you'll see on this slide here. The new rules provide additional ways for participants to access their savings penalty free, including situations involving domestic abuse, terminal illness, qualified disasters, and long-term care. And there are a lot of specifics under each of those withdrawal options. And some, you may live in an area where a disaster just isn't as high of a potential, so maybe you opt not to add that provision, but it's just all worth a conversation. What is it? How does it fit with our needs? What will it take to implement it? All the things we've been talking about today.

It's just going to be important for you to talk through the specifics of the provisions and then make your decision. Once you make your decision and you're adding these additional provisions, how will you educate your employees so that they understand not only what's available, but what's the process for them to leverage those options and how will it impact their long-term savings goals? And we already mentioned that we'll want to check with providers, but you should also check with your providers to see what resources they have available to support you in the education efforts. They're going to be developing materials to educate sponsors and employees as well, and you may be able to leverage those.

Then when we look at contributions, Jean talked about employers having the option to offer vested matching contributions as Roth. You heard me discuss the option to offer student loan matching contributions, and Jennifer talked about the emergency savings options. Again, these are all provisions you'll want to consider from a needs perspective and then gain an understanding of what your providers are doing to make them available, what that process looks like, how it affects your day-to-day administration of the plan, and when are the record keepers and payroll providers updating their system? Some of this, I think Jennifer alluded to this, but it can take some time and it will vary across providers, so you want to make sure you have a good understanding and have connected with each of them.

And then the last one on this slide is the small balance, which I don't think we've talked much about this, but there are a handful of provisions included in Secure 2.0 that really help employers and employees keep better track of these small balance accounts that have been a little bit of a challenge over the years. Helping to keep better track as employees switch jobs or leave the workforce. And again, I think this has been a topic as well for many years, but it addresses that. It eliminates the legal uncertainty around moving former employees accounts without their authorization and employers would now be able to automatically transfer those to the ex-employee's new job into their new retirement plan.

The law also increases the maximum threshold for offloading the prior employee accounts from \$5,000, where it was previously, to \$7,000. And both of these provisions I think will be very useful in keeping employees invested. Often if employees have the option, they'll cash out and then they never get back into another plan or invest those dollars. It's not too soon to start asking these questions, establishing your goals so that you can continue to develop that timeline.

Jennifer Doss:

And I think, Dawn, just from looking at this page, it's a really interesting point to make that I've heard from a lot of other people, which is in the industry, one of the interesting things about Secure is you've got this push and pull going on. You can see you've got a lot of provisions that are talking about new ways you can get money into the plan. How can you get people that are not participating? How can you increase contributions? How can we make it so that people can pay down debt and save for emergencies and also contribute to their retirement? But then you have all these different withdrawals, all these different ways to get money out if you need it for certain things more than you had before. It's one of the interesting things I've heard. And Jean, I'm wondering if your clients are like, "Wait, is it trying to get more people in the plan is they're trying to get more people to leave the plan? What are we trying to do here?" I don't know if you've gotten that feedback.

Jean Duffy:

Yeah, I think there are a lot of questions that are coming up around that, both from the employee level and the employer level. You think back, it all started with the CARES Act and just easy access to money during the pandemic. And we've already known it's a challenge. It's been a challenge to get people to retirement financially secure, where they can retire when they want to and with dignity, and do the things they want to do at the end of their life. But then we know there's challenges along the way and life happens, so how do you help people with that? But it clearly seems like we got provisions working against each other here, and many plan sponsors are taking a little bit more of that maybe parental approach where it's like, "Hey, I want my employees to get to retirement and really have a good life at that point, so I don't want to keep making it easy for this money to go out."

I think it is a cultural and a philosophical discussion at the employer level, again, on some of these provisions, but there certainly will be different opinions on that. I don't want it to be super easy for employees to get money out of this retirement plan when the goal is retirement. That's what the goal. I think that that will continue to see some of those conversations happen at the committee level and with plan sponsors, and just trying to figure out how to navigate these provisions and input the ones that make sense.

Jennifer Doss:

Yeah. And one of the more interesting things I think is, you could think about it differently philosophically, like you said. I could even turn that around and say, "Well, if you make it easier for people to get money out when they really need it, they have an emergency or there there's a disaster and their home is gone and they need the money, are they more likely, then, to be able to want to put money into the plan?" Whereas before they were like, "Ooh, I don't know if I can, what if I need tires?" I think that's obviously, again, philosophical, but those are some of the, I think, debates that we'll be having for years to come at this point. Alright, Dawn, why don't you take us home with some takeaways?

Dawn McPherson:

Sure. Yes. Even though this is a lot to process, we committed to wrapping it up by giving you just a few things that you can start doing. And we've alluded to all of these, but start the conversations. This one focuses more on your external partners, but start the internal and external. Maybe they happen in tandem so that you get the support you need. But service providers need to develop the software. They need technology in some instances, training, communication materials to record, keep and administer the various new provisions. Again, this is going to take time, but making your providers aware of what you're thinking about, what's of interest to you, and asking questions around their plans for integration and implementation is going to help you build your timeline and formulate a game plan with them, and also potentially be early to their schedules for implementing the various sponsors wanting to get in on these provisions.

The next one I would say would be understand the mandatory plan design features that you want to add to your plan... Or I'm sorry. The mandatory ones that you must add to your plan. Understand those and then decide if there are other changes from that optional pool that you want to include. We've talked a lot about this bullet, but it's going to be very important for you to understand what's required. Reach out to your partners, leverage your advisor, your outside counsel, your record keeping partners, and gain a solid understanding of those mandatory provisions, how they're going to impact your plan. Do you need to make design changes to your current plan design to accommodate the required provisions and get that set straight with the timing? And then also make decisions around the optional provisions that you plan to implement. And this will really, again, just allow you to put that process in place and educate your employees before the provision begins.

And that comment on education leads into our final bullet, which is just as you're seeking education opportunities around Secure 2.0, you're reading materials, you're reaching out, listening to webinars, talking to partners so that you can gain an understanding of this. Your employees also need to receive education as these provisions are put into place. You'll want to provide the employees with an understanding, again, of the availability of the provisions, the addition of the mandatory ones, the availability of any optional ones, and then really ultimately what it means to them and to their long-term savings goals. I'd encourage you to include education as part of the conversation that you're having with your external providers, your plan providers as well, so that you can leverage their materials.

Jennifer Doss:

All right. I haven't not been paying attention to you, Dawn, while you're speaking. I'm just looking at the questions and they're just coming in furiously and I'm trying to read them at the same time. I am paying attention to you. I didn't want you to think I'm not.

Dawn McPherson:

No worries.

Jennifer Doss:

You're like, "Per usual." We've gotten a few, and I'll try to bucket these into broad categories, but there's a lot about the catch-up provision. There's confusion over is it even happening, are we even doing this because somebody heard that it was drafted wrong and we may not even have catch ups anymore? I'll take that one and then you guys can get yourselves together for the next ones. But yes, there was a drafting issue error that did technically remove the ability for anyone to make catch-up contributions starting next year. It was clearly an error. The intent was to amend the tax code to mandate that catch-up contributions be Roth for those that were over those income limits that we talked about. It was definitely an error. It does need to be fixed through a technical correction by Congress, we think, and

the timing of which is ultimately unknown, but we do fully expect them to try to make it before it becomes an issue.

Ultimately, it was clearly not the intent of the bill. And to be quite frank, this one, this catch-up revision required as Roth was a revenue raiser. And so that was one of the few things that was really helping them balance out the budget of all these other things that were expenditures. And I'm sure the government always wants their money, so if it's something that's going to prevent them from getting their revenue, I feel like they'll probably do it. But again, don't hold me to that. Okay. Next question, actually something we haven't hit on, Jean. It's about longtime part-time employees. And I know this impacts some plan sponsors way more than others, but can you talk about that? Is there an impact to what do those people need to be doing?

Jean Duffy:

Yeah. I think this is a mandatory requirement for long-term part-time employees to be included in the plans with Secure 2.0. They shortened the measurement they first put out in Secure 1.0, but Secure 2.0 now says if employees work 500 hours for two consecutive years, you have to allow them into the plan, at least for deferral. You don't have to make an employer contribution or a matching contribution, you just simply have to allow them to defer. Now, when Secure 1.0 came out, it was 500 hours for three consecutive years, and then you had to let them in. And those hours, you should have been counting 2021, 2022, and 2023 to let them in starting in 24. When that happened, and that obviously would still apply for 24, that a lot of employers started to say, "Wait, this seems complicated. This seems like it's going to be a heavy administrative burden, we're just going to let our part-time employees in right away. We're just going to do it with everybody else."

If you modify that requirement, obviously you took care of it that way, and I saw many employers want to do that. Obviously, if you're an employer who has a lot of part-time employees, it might be something that you still want to have this rule apply where you're counting hours and once they reach that 500 hours for two consecutive years that you would let them in. If now for Secure 2.0, you would count hours for 2023 and 2024 to let them in effective 1125. It does allow us to exclude them from testing, so that's helpful. But what we're seeing around this is really that people want to simplify administration, not make it more complex. But the government's role here is to try to let more people participate in retirement plans and not to exclude those part-time employees.

Jennifer Doss:

And I think that, combined with the higher automatic force out amount... You could say there's, again, there's a push and pull here of yes, you have to let more people in, but you don't have to do these certain things and they have low balances then you know, can get those to their next employer. I think it all loops in together. Alright, Dawn, question for you about notices. Basically, there's a reduced notice requirement in certain cases, but there's also a new paper requirement that's new. Again, we didn't really hit on this. How do those two things fit together?

Dawn McPherson:

How did they fit together? Yes, you're correct. Over the years the Department of Labor and the IRS have worked hard to ensure that participants get the information that they need to make an intelligent decision about participating in a retirement plan. These efforts unfortunately resulted in sponsors having to send a significant number of notices or disclosures to plan participants, including those participants that were eligible but not participating in the plan. In an effort to reduce the number of

these required notices, effective in 2023 plans, will no longer be required to provide certain notices to those eligible not participating in the plan employees. That's not a tongue twister.

Instead, plans will only be required to give those employees an eligibility notice upon initial eligibility requirements being met, and then annually they'll provide an eligibility notice, but they won't have to provide them with all those other notices of fund changes and things like that. And then regarding the required paper statement, this stems from an entirely different concern and there's mixed feelings on if people believe the concern, but it's a concern over the accessibility of the internet to all people, and I think it's focused more on those of retirement age and being concerned that they're not going to have access to the internet.

And I'm going to just add my own little color here that even my parents, who are at retirement age, tell me all the time that they're now finally paying all their bills online on their tablet. They're using their tablet to get online to pay things. I just feel like if my parents can work smartphones and work, get access to the internet, but no, I know there's a concern that not everyone would have access. The provision requires that beginning in 2026, any qualified retirement plan will have to provide a participant with at least one paper statement annually. And I think there are still some questions around what the ERISA electronic communication parameters exclude right now, so there may be some need for that language to be changed a little bit or enhanced to call out the needs. Even if somebody has affirmatively elected to receive communication electronically only, that they would still get this one benefit statement annually.

Jennifer Doss:

Got it. I just have to say, again, looking at all... There's a lot of questions in here and there's a lot of really technical questions. A, I'm super impressed because this is clearly not people's first webinars. They're clearly informed and ready to ask the deeper questions, which is fantastic. They are also asking good questions that, I mean, frankly I can't answer and not because I don't know the answer, but because none of us know the answer. There's just things that we need guidance on. There's a lot of good questions in here where it's like, "What if this and what happens if this?" And again, frankly, we don't know. A lot of the questions, unfortunately, the answer is we'll have to wait and see, and we hope that we get guidance rather soon on, especially some of the ones that are 2023 and 2024.

It'll be interesting to see, and otherwise the record keepers will go forward in good faith. We'll say, "We've set this up to the best that we understand, the language and the bill, and we think that we've done the right thing based on our other experiences with this." And if not, then you'll hopefully be given some sort of grace period to get that rectified. But again, lot of good questions, so I don't think we're going to be able to get to all of them today, but what we will do is we have all of these recorded, and so we will do a follow-up. We can answer all of these specifically. Even if the answer is we don't know, we'll tell you that we don't know and that nobody knows. I think we'll do that to follow up because they're very specific.

But I want to thank everybody for joining us today. Again, I know there's a lot of Secure webinars. Thanks for picking this one. We hope you found it informative and helpful. And we will send out, as Kara said, we'll send out a recording and a copy of the deck that we use today in the next day or so. Be on the lookout for that. If you like the deliverables. And if again, questions we didn't get to, we will do that. If there were questions that you didn't ask and you can feel free to reach out to us too and we'll try to answer those as well. Alright, thank you, Dawn. Thank you Jean, and thanks everybody for joining and I hope you have a great rest of your day.

Dawn McPherson:

Thank you.

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