How to Prepare for SECURE Act 2.0

A 5-Step Implementation Plan for Retirement Providers

Introduction

In December 2022, Congress passed the SECURE Act 2.0, which builds on retirement savings regulations set forth by the original SECURE Act of 2019.

Written to expand coverage and increase retirement savings for millions of Americans, SECURE Act 2.0 introduces some major changes to retirement plans nationwide. Since certain sections of SECURE Act 2.0 are already in effect, and even more will go into effect soon, retirement plan providers must act swiftly to ensure compliance.

In this white paper, we share what SECURE Act 2.0 is, why it was enacted, and what sections are most relevant to retirement plan providers. We then make recommendations for how 401(k) and 403(b) plan providers should prepare for three critical provisions: Sections 101, 125, and 603.

What is SECURE Act 2.0?

SECURE stands for Setting Every Community Up for Retirement Enhancement. Now in its second iteration, SECURE Act 2.0 is designed to help employers provide easier and more affordable retirement plans for their employees.

Why was SECURE Act 2.0 enacted?

The United States is facing a retirement crisis.

Across all age groups, the average American has only $89,300 set aside for retirement. When you consider that the benchmark set by popular savings strategies like the 4% rule is $1.5 million, there's due cause for concern.

According to a [2021 report by The National Institute on Retirement Security](#):

- More than two-thirds of Americans say the U.S. is facing a retirement crisis.

- Over half are concerned about achieving financial security in retirement.

- Nearly two-thirds expect to work past the normal retirement age.

- To address these concerns and unburden the American worker, SECURE 2.0 is creating easier, more accessible opportunities to save for retirement.

Average American Retirement Savings

Average set aside for retirement

Recommended for retirement

| $0 | $375K | $750K | $1.125M | $1.5M |

What provisions will impact retirement providers?

While there are dozens of new rules and regulations, here's a snapshot of the provisions most relevant to 401(k) and 403(b) plan providers:

Automatic enrollment and contribution increases

All new 401(k) and 403(b) plans adopted after December 29, 2022 will be required to automatically enroll participants at a rate of 3-10% of their pay. They will also be required to automatically increase participants' contributions by 1% every year thereafter until their contributions reach at least 10% but not more than 15% of their pay.

Increased catch-up contributions

The catch-up contribution limit for 401(k) and 403(b) plans will increase from $6,500 to $7,500 for Americans aged 50 and up. Since nearly half of Americans over the age of 55 have no retirement savings, this provision will help older employees contribute more to their plans as they near retirement.

Roth 401(k) expansion

The availability of Roth 401(k) plans will expand to all employers, regardless of size. With its embedded tax benefits, this provision will help small businesses, which have been historically less likely to sponsor a retirement plan, to offer a plan to their employees.

Emergency withdrawals

To cover unforeseeable or immediate financial needs, plan participants can now withdraw up to $1,000 from their retirement plan without having to pay a 10% tax. With easier access to their retirement savings, Americans will be better able to weather a financial emergency.

Saver's Credit

Saver's Credit, the tax break for low- and moderate-income workers, will be fixed at 50%. The qualifying income for eligible savers will also increase from $41,000 to $41,500.

5 steps retirement plan providers should follow to become compliant

With many provisions going into effect before January 1, 2024, retirement plan providers don't have much time to put in place the people, processes, and technology they'll need to become compliant. Failure to do so correctly and on time could result in stiff fines as well as the potential legal fees associated with disputing any penalties in court. It may be a race against time, but with proper planning, you can beat the clock.

In this section, we highlight the steps you should follow to become compliant before the deadline.

Step 1
Understand what's required of you

If you are among the retirement plan providers affected by SECURE Act 2.0, you must first understand the legislation inside and out. In this section, we explain what's mandated in Sections 101, 125, and 603, sections which may prove challenging to comply with due to technical limitations.

What is Section 101? The automatic enrollment and contribution increases clause

One of the primary reasons so few Americans have sufficient retirement savings is because, even when employers do sponsor plans, many employees don't take the steps necessary to enroll. To address this problem, Section 101 of SECURE 2.0 requires all new employer-sponsored 401(k) and 403(b) plans adopted after December 29, 2022, to automatically enroll employees at an amount equal to at least 3% of the employee's pay but not more than 10%.

Of course, Section 101 stipulates that employees have the right to opt out of participation, but the small friction of doing so is usually enough to keep many employees enrolled.

In fact, studies demonstrate that automatic enrollment increases employee participation across the board, particularly among Black, Latinx, and lower-wage employees. Additionally, Fidelity Investments found that, among its clients, 90% of auto-enrolled employees stay enrolled in their plans.

In addition to auto-enrollment, Section 101 requires that each participant's contribution amount be automatically increased by 1% each year until it reaches at least 10%, but not more than 15%. The legislation does allow exceptions to both of these requirements for small businesses with 10 or fewer employees, new businesses that have been operating for less than three years, church plans, and governmental plans, but most 401(k) and 403(b) plan providers should anticipate that most of their new plans will ultimately be affected.

Section 101 is effective beginning January 1, 2025.

What is Section 125? The part-time employees clause

Signed into law in 2019, the first SECURE Act required that employers allow long-term, part-time employees to participate in their 401(k) plans. The original legislation dictated that employees must have worked at least 1,000 hours in their first year or accumulated a minimum of 500 hours of service over three consecutive years.

SECURE Act 2.0, which passed in 2022, reduces the three-year rule to two years. It also stipulates that long-term, part-time employees must also be allowed to participate in 403(b) plans that are subject to ERISA.

The new provisions under Section 125 are effective for any plan starting after December 31, 2024.

What is Section 603? The catch-up contributions clause

Under current law, retirement plan participants age 50 and older can make catch-up contributions to their 401(k), 403(b), or IRAs. According to Section 603, if a retirement plan participant wants to make a catch-up contribution—and they earn more than $145,000 per year—they will be required to make the contribution on a Roth tax basis. In other words, catch-up contributions for these individuals will no longer be eligible for pre-tax treatment in 2024.

The purpose of the provision is to create more opportunities for Americans to accelerate their savings in the years leading up to retirement. By imposing a Roth-based rule, Congress ensures that plan participants will be able to withdraw tax-free dollars when they retire, thereby strengthening their financial security.

While a glitch in Section 603 could inadvertently eliminate the ability for anyone to make catch-up contributions in 2024, Congress has told the U.S. Treasury that corrections are coming, so retirement plan providers should prepare to stay compliant with Section 603 as Congress intended.

Step 2
Evaluate your options and choose the best solution

To comply with Sections 101, 125, and 603, you must find a way to automatically determine employee eligibility, enroll participants in your 401(k) and 403(b) plans, trigger contribution increases, and verify that catch-up contributions from eligible employees are made on a Roth basis.

By nature, automation necessitates the regular sharing of large volumes of data between you and the employers who sponsor your plans, including sensitive personal identifiable information (PII) and payroll details for every participant.

To transfer this data, which is largely stored in employers' payroll systems and human resources information systems (HRIS), you can implement one of four approaches:

1. Manual data entry

Manual data entry can have its benefits. It allows plan sponsors to stick with a data collection system that works for them and it is almost always the least expensive option in terms of hard, upfront costs. That said, the potential downfall from manual data entry cannot be understated:

- Manual data entry is prone to errors, which can lead to improperly tracked data, compliance violations, and penalties from regulatory bodies.

- It can also lead to inaccurate retirement plan balances and contributions, resulting in penalties from the IRS.

- Manual data entry does not adequately protect PII such as Social Security numbers and bank account information. Without safeguarding highly sensitive data, you run the risk of exposing employees to data breaches and potential identity fraud.

- Manual data entry puts undue burden on sponsor admins, as it requires hours of their time and attention every month that could be spent on higher-value tasks.

	Manual Data Entry	SFTP	CSV Uploads	1:1 APIs	Unified APIs like Finch
Set-Up Costs	⊖ Medium	⊖ Medium	⊖ Medium	✕ High	✓ Low
User Friction	✕ High	⊖ Medium	✕ High	⊖ Medium	✓ Low
Data Latency	⊖ Medium	✕ High	✕ High	✓ Low	✓ Low
Error Frequency	✕ High	✓ Low	✕ High	✓ Low	✓ Low
Maintenance	✕ High	✕ High	✕ High	⊖ Medium	✓ Low

2. SFTP or flat files

[Secure file transfer protocol](#) (SFTP) and flat files offer another way to transfer retirement plan data.

With SFTP, you can bulk transfer large files of data in tables (in the form of CSV, JSON, and XML files, for example) over a secure network. The benefits of SFTP methods are that they're generally easier for most in-house developers to build compared to custom, direct integrations (more on those next). But there are also significant drawbacks:

- SFTP requires sponsor admins to compose custom reports for each data sync and upload them correctly. This often presents technical challenges for your customers, who may be responsible for inputting host domains, keys, and other server-specific information into their system to establish a scheduled sync.

- SFTP relies on manual data entry to a certain extent, which raises risks and means data has to be validated to avoid errors—a process that drains time and resources for all parties.

- SFTP doesn't allow for real-time data access, precluding your ability to power the seamless, next-generation functionality business customers are looking for in their technology solutions.

This method is especially cumbersome when data syncs need to happen often and regularly, which will be the case for plan providers and plan sponsors who need to comply with auto-enrollment and auto-contribution increase requirements.

3. Custom integrations

A more sophisticated approach involves direct integrations with the HRIS and payroll systems that house the data you need to perform auto-enrollment and auto-contribution increase functions.

The beauty of direct integrations is that data syncs happen automatically and in real time, driving efficiencies for all parties, providing your customers with an optimally seamless experience, and giving you the peace of mind that you are always in compliance with Section 101.

Crucially, custom integrations can be built to provide read and write capabilities, which means you can also use them to automatically push changes back to HRIS and payroll systems. This is especially valuable when it comes to contribution management.

Custom integrations also present significant challenges:

- There are more than 5,700 HRIS and payroll systems in the U.S. market. To adequately cover your customer base, you will need to build custom integrations to at least hundreds of them.

- Building custom integrations in-house is technically complex and requires specialized engineering skills and experience.

- They are also expensive to build and maintain, both in terms of time and money. If you assume that three engineers will work on a single custom integration for three months, that puts the soft costs of just your initial buildout in the ballpark of $200,000. Then, there are the hard, ongoing costs to consider, like the fees many HRIS and payroll systems charge to use their API. For access to a legacy system like ADP, the hard and soft costs combined can run in excess of $1 million.

This method is especially cumbersome when data syncs need to happen often and regularly, which will be the case for plan providers and plan sponsors who need to comply with auto-enrollment and auto-contribution increase requirements.

4. Unified employment APIs

To get all of the advantages of custom integrations without the cost or hassle of building them in-house, you can turn to a unified employment API, which aggregates connectivity to many HRIS and payroll systems at once with a single integration.

A unified employment API does the hard work of building and maintaining the integrations, and standardizing and abstracting all incoming data, so your team doesn't have to. They are infinitely more efficient than custom integrations, so you can get to market faster and, ultimately, at less cost.
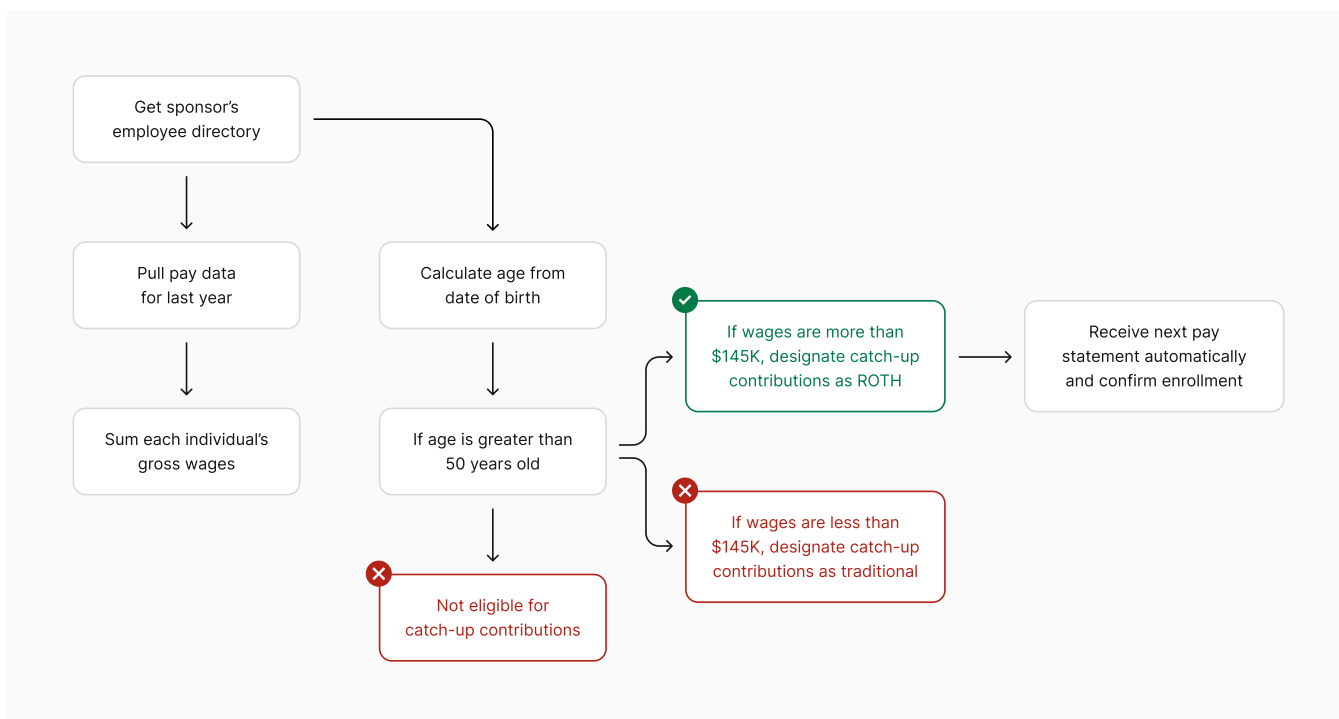
The logic Finch uses to automate SECURE Act 2.0 compliance for provision 603. Similar logic is used to help your company adhere to the regulations laid out in other provisions.

Reach out to our sales team for more details.

Step 3

Implement your chosen solution (and its failsafes)

It typically takes six weeks to six months to set up new systems, depending on your team's capacity. At minimum, you'll need to implement the technology you've chosen, including any failsafes that protect you from noncompliance. Along the way, you may also need to hire specialists or upskill your team and roll out new policies or processes that ensure compliance.

Step 4

Validate and test its performance

Before rolling out a new system to your customers, you must test it to verify that it works as intended. Otherwise, you may experience issues that prevent you from adhering to the rules and regulations set out by SECURE Act 2.0. Depending on how much your team members have on their plates, this stage could take up six to 12 weeks.

Step 5

Roll out the changes to your users

By the deadline, you'll need to introduce the new system to your customers. That requires not only having a functional system in place, but also creating and distributing communications about why the new system exists, how it functions, and what failsafes you've put in place to ensure compliance.

Conclusion

As you prepare for SECURE Act 2.0 to come into effect, don't lose sight of the fact that it will take time to prepare to be compliant.

The least risky way to ensure compliance, not to mention the most time- and cost-effective solution, is to integrate with a unified employment API like Finch.

Finch does the hard work of integrating with HRIS and payroll providers to facilitate the secure, permissioned flow of critical business data. Our dynamic, unified employment API offers:

Easy integration

Finch makes it easy for retirement plan providers to integrate with 200+ HRIS and payroll systems, covering approximately 88% of the market.

Automated enrollment and contribution management

With Finch, retirement plan providers instantly access the real-time employee directory and payroll data they need to automate 401(k) and 403(b) enrollment, and push contribution changes directly to payroll—no manual intervention needed.

Increased efficiency

Finch is a pre-built solution that's ready to use. Plan providers waste no time building and maintaining custom integrations, and plan sponsors save dozens of admin hours a month—a win-win for you and your customers.

Confident compliance

Finch replaces error-prone manual processes with seamless integrations that let retirement plan providers meet the stipulations in Sections 101, 125, and 603 of SECURE Act 2.0.

Strong security

Finch is a pass-through system, and is SOC2 Type 2, CCPA, and GDPR compliant.

Talk to our sales team today to explore ways you can use Finch to ensure compliance with SECURE Act 2.0.