Building on the SECURE Act: What's next for retirement legislation?

Insights

Retirement plans are a core component of employees' compensation and a key differentiator for employers. Given their importance, it's essential that laws and regulations governing them keep up with the evolving challenges workers face.

That's the rationale behind the Setting Every Community Up for Retirement Enhancement Act (SECURE Act), which took effect in January 2020. This landmark piece of legislation has significant provisions for improving workers' retirement outcomes. But while the SECURE Act is an important step toward building a stronger retirement system, more work is needed.

Key SECURE Act provisions*

- Increases Required Minimum Distribution age from 70 ½ to 72.
- Eliminates maximum age for making IRA contribution.
- Lifetime Income: Provides annuity selection safe harbor; allows for annuity portability and requires annuity income estimates on plan benefit statements.
- Relaxes Multiple-Employer Plan rules to allow plans from different industries to offer pooled plans.

*Not all SECURE Act provisions are listed.

Barriers to better retirement outcomes

The COVID-19 pandemic has exposed many obstacles holding Americans back from financial security. Some of today's most pressing issues include:

- **Overwhelming student debt:** With student loan debt now exceeding $1.6 trillion, 8 in 10 Americans consider their student loan debt a major financial burden, compromising both their current financial well-being and ability to save for retirement.
- **Running out of money in retirement:** With more Americans living past 90, an individual can reasonably expect to spend 30 or more years in retirement. But many Americans are not prepared to make their retirement savings last this long. They need more flexibility in saving for retirement, taking distributions from qualified accounts, and generating lifetime income.
- **Lack of access to an employer retirement plan:** Many workers do not have access to a retirement savings plan. Making it easier for employers to offer these plans is essential to jumpstarting workers' retirement savings and planning.

Legislators are well-aware of these barriers and are looking to build on the momentum generated by the SECURE Act. The good news is that the importance of retirement security has drawn bipartisan support, increasing the odds that legislation can move forward with this Congress.

Pursuing a SECURE Act 2.0

Of the bills now circulating in Congress, the Securing a Strong Retirement Act in the House and the Retirement Security and Savings Act in the Senate are the most comprehensive and are often referred to informally as SECURE Act 2.0. Among their provisions:

- **Matching retirement plan contributions for student loan payments:** This provision allows employers to make matching contributions in retirement plans (e.g., a 401(k) plan, 403(b) plan or 457 plan) for qualified student loan payments.
- **Offering higher catch-up contributions for individuals who are ages 62-64:** Americans 50 years and older can already take advantage of increased catch-up contributions; this provision would allow workers approaching retirement age to save even more in their qualified retirement plans.
- **Further increase in the age to begin Required Minimum Distributions (RMDs):** Current proposals call for increasing the age for RMDs from 72 to 75. This change would allow retirement savings to continue growing tax-advantaged longer.

Emergency savings are another potential focus for retirement legislation. Emergency funds can alleviate the impact of unanticipated financial hardships—such as a job loss or illness—by reducing an individual's need to take early retirement savings withdrawals or other adverse financial actions. The pandemic has underscored the importance of emergency funds to Americans' financial well-being.

Taking action now

While new legislation makes its way through Congress, plan sponsors can take steps now to improve their employees' overall financial well-being and retirement preparedness.

- **Addressing student loan debt burdens:** Offering targeted financial education and other programs can help employees manage their student loan debt by better understanding their options. For example, in partnership with SAVI, a social impact technology firm, AIG Retirement Services offers an online tool that makes it easier for public service employees to reduce their student loan payments and simplify the path to loan forgiveness through Public Service Loan Forgiveness.
- **Helping employees maximize savings:** Educating employees about the power of compounding and the importance of starting to save as early as possible can help them avoid having to play catch up later in life. But, if they are behind, making sure employees are aware of catch-up options and other planning strategies is equally important. AIG's FutureFit University offers learning tracks to help employees throughout their lifestages and personal situations.
- **Educating employees about lifetime income options:** Saving for retirement is only part of the planning process. Generating income from those savings and making it last throughout retirement is the planning step that typically receives less attention. Employees need greater support in figuring out this step and understanding how guaranteed income can be a part of a holistic plan that addresses retirement income shortfalls.

We all share an important role in facilitating Americans' retirement readiness by improving access to and participation in retirement plans, encouraging retirement savings and creating an investment framework that supports accumulation and lifetime income in retirement.