Dispelling Myths vs Facts

Real-World Benefits of SECURE 2.0

Last spring, the U.S. House of Representatives passed the Securing a Strong Retirement Act of 2022 – SECURE 2.0 – with an overwhelming bipartisan vote of 414 to 5. The legislation works to update federal retirement policy for small businesses, lower-income workers, military spouses, people repaying college loans, and others. Since then, two Senate committees have passed their own bipartisan versions of retirement legislation with many of the provisions found in the House bill and others. The HELP Committee gave unanimous approval to the RISE and SHINE Act. And the Finance Committee gave its unanimous support for the EARN Act. Surprisingly, given the important advances these bills would make for under-represented communities, detractors have attacked the SECURE 2.0 effort, inaccurately portraying the initiative's impact. Those misconceptions are addressed here.

MYTHS	FACTS
The private retirement system, IRAs, and past bipartisan legislation primarily benefit the wealthy.	• According to the Federal Reserve Board 2019 Survey of Consumer Finances (SCF), the retirement savings of low- and middle-income families have seen dramatic growth since 1995 with a 75% increase in the average savings for the lowest income families and over 100% growth for middle-income families. • According to the SCF, coverage of lower- and middle-income families increased materially during the same period, ranging from a 12% increase for middle-income families to a 20% increase for the lowest income families. • The various bipartisan versions of SECURE 2.0 contain critical provisions to attain even greater growth in savings and coverage, particularly among financially vulnerable families.
SECURE 2.0 will exacerbate wealth inequality in the U.S.	• ***SECURE 2.0 incentivizes*** lower- to middle-income savers to invest for their retirement while filling gaps in employer coverage. • ***The Part-Time Employee Provision*** would substantially expand coverage, helping millions of lower- and middle-income individuals over time. • ***The Student Debt Provision*** helps establish savings for employees who may not be able to save on their own for retirement as they are overwhelmed with student debt and are missing out on matching contributions from their employer's retirement plan. • ***The Saver's Credit***, which provides lower-income earners a tax credit as an incentive to save, would become larger and more accessible, and the legislation would promote greater awareness and use among women with low incomes. • ***The Disabled First Responder Provision*** would allow first responders to exclude disability pension payments from income after reaching retirement age. • ***Automatic Portability*** included in the EARN Act would help individuals' savings follow them through job changes, which is particularly important for low balance retirement accounts and those who are navigating a more transitory workforce. • ***Emergency Savings*** proposals included in the RISE & SHINE Act and the EARN Act would take an important step to help individuals meet financial emergencies with dedicated savings while also enhancing retirement savings. A 2019 pre-pandemic Federal Reserve study shows that approximately 40% of American adults would have difficulty covering a $400 emergency expense – such as a car repair or replacing a broken appliance – and 12% would be unable to pay the expense at all.

SECURE 2.0 does nothing for private sector workers who don't have access to a retirement plan.

- SECURE 2.0 would increase the startup costs credit for small employer retirement plans. Half of all working Americans are employed by small businesses, and yet the cost of providing retirement plans to employees has historically been challenging to many small businesses.
- SECURE 2.0 would permit greater economies of scale and thus lower costs for 403(b) plans – principally used for employees of public schools, churches, and other charities – including relief from the "one bad apple" rule.
- SECURE 2.0 would provide a tax credit for small employers that make military spouses eligible for their retirement plan with immediate vesting.
- Far too many Americans don't take advantage of their company-sponsored 401(k) plans – automatic enrollment will dramatically improve participation rates.
- Notably, a 2012 Ariel/Aon Hewitt study showed that automatic enrollment resulted in increased participation rates for all individuals, with dramatic increases among Black and Hispanic participants. Encouragingly, the rate of increased participation was dramatically higher among early career individuals in lower salary brackets, providing a much longer runway to grow retirement savings.

Only the wealthy benefit from raising the RMD age and from increases in the catch-up contribution limit.

- Under SECURE 2.0, people will be permitted to delay distributions until age 75, up from age 72. A recent NBC report found the current economic picture and inflationary pressures are forcing many retirees back to the workforce extending their working years beyond age 72.
- Between February 2020 and January 2022, nearly 2 million women left the workforce to care for a loved one. Lost wages and savings for many will be difficult, if not impossible, to make up. For those returning to work, higher catch-up contribution limits can help.

SECURE 2.0 will significantly raise the federal deficit.

- The current Congressional revenue estimating system actually masks the long-term positive budget effects of retirement savings since amounts excluded from income today are typically taxed after the Congressional budget window closes. For example:
- The increase in the RMD age and the increase in the catch-up contribution limits simply delay the taxation of larger amounts until after the budget window. So, it is likely that far more taxes will be collected after the close of the budget window than the revenue losses recognized during the budget window.
- Roth treatment is the mirror opposite of tax deferred treatment, providing tax benefits and revenue loss outside the budget window while tax revenue is received within the window.

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