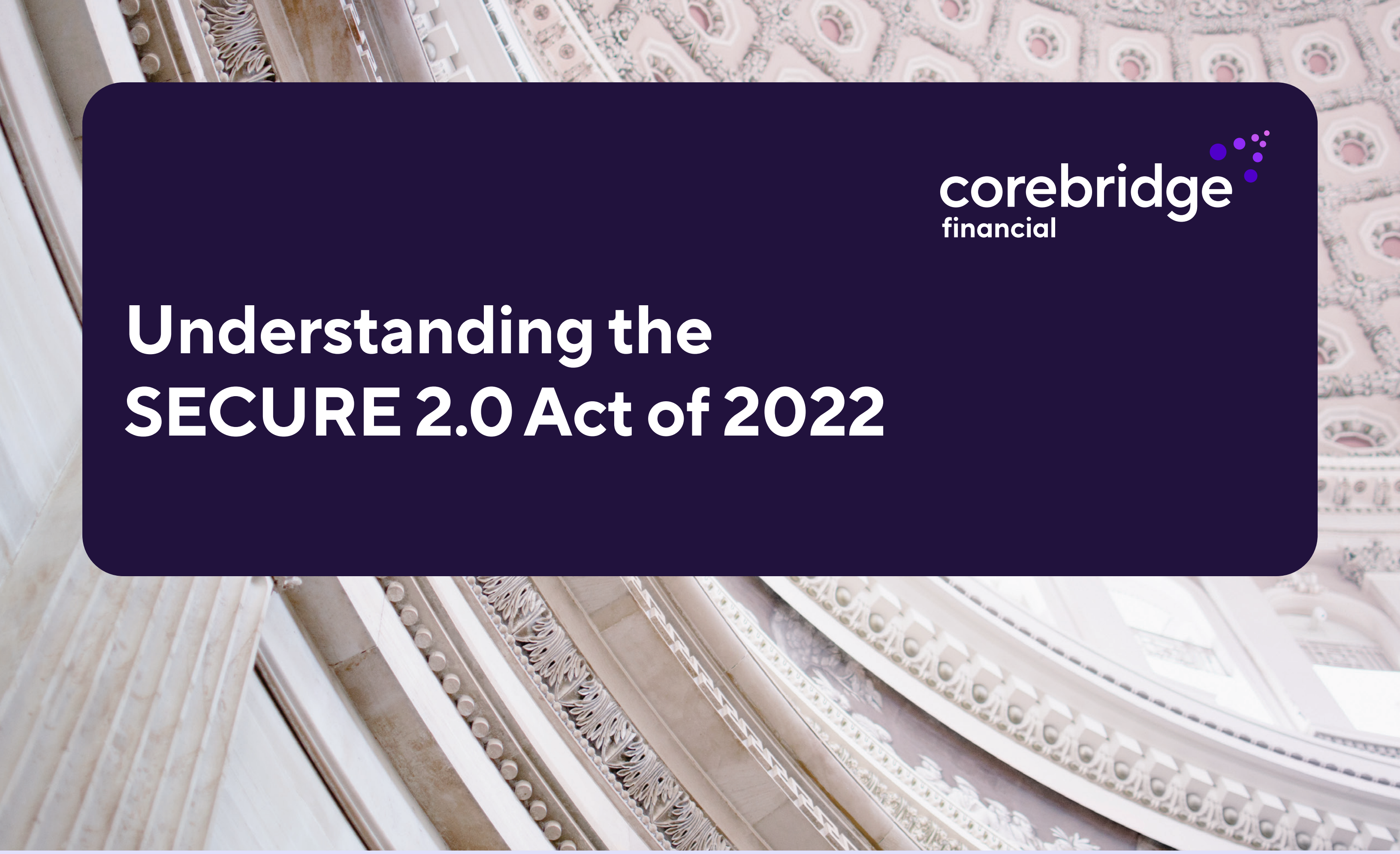

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Understanding the SECURE 2.0 Act of 2022

Insights

Retirement plans are a core component of employee compensation and a key differentiator for employers.

Given the importance of retirement plans, it is essential that laws and regulations governing them keep up with the evolving challenges workers face. Many are feeling the economic impact of a global pandemic, inflation and fluctuating market conditions, while trying to balance today's financial needs with planning for potentially 30 years in retirement.

On December 29, 2022, new federal retirement legislation was signed into law as part of the year-end omnibus legislation. SECURE 2.0 aims to improve retirement outcomes by increasing access to retirement plans, growing and preserving savings, and helping Americans manage competing financial priorities so they can achieve long-term financial security. This expands on retirement policies introduced by the Setting Every Community Up for Retirement Enhancement (SECURE) Act or "SECURE 1.0", which was enacted into law in late 2019.

SECURE 2.0 is a large piece of legislation with more than 90 provisions. Some take effect immediately, others begin in 2024, 2025, or even later. Here is a synopsis of some of the key provisions and their effective dates.

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Preserving income for longer

Required Minimum Distributions (RMDs) are designed to ensure individuals use retirement savings in retirement, reducing the amount of money that could be transferred to beneficiaries. For many, however, this could mean tapping funds earlier than needed and their savings won't last as long.

Here are some the SECURE 2.0 provisions that change the requirements around RMDs to enable individuals to preserve retirement income for longer:

Increase in mandatory age for RMDs.

In 2019, SECURE 1.0 increased the mandatory age for RMDs from 70½ to 72. With SECURE 2.0, the mandatory age will increase to 73, effective January 1, 2023 and will increase again in 2033 to age 75.

Higher purchase levels for qualified longevity annuity contracts (QLAC).

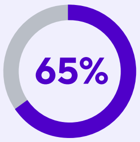
A QLAC is a deferred annuity purchased with funds from a retirement account or IRA that can begin payments at age 85, well above the mandatory age for RMDs. The cap on purchasing a QLAC with retirement funds was limited to the lesser of $125,000 or 25% of a person's retirement funds. SECURE 2.0 eliminates the 25% limit and raises the cap to $200,000, indexed for inflation, effective immediately.

Elimination of the partial annuitization penalty.

For background, when a retirement account holds an annuity that has been annuitized, RMD requirements apply to both the annuity and the rest of the account, separately. This can result in larger distributions and higher federal income taxes for the individual.

Under SECURE 2.O, individuals can now aggregate annuities and other holdings for purposes of determining RMDs, which may help lower distribution amounts, reduce federal income tax, and allow savings to last longer. This is effective immediately.

Having income for life is a real concern for many:



Corebridge's 2022 survey on retirement and longevity found that that **65% of Americans** say they fear running out of money more than they fear death.

Growing retirement plan contributions

Increase in catch-up contribution limits for ages 60-63.

Currently, plan participants 50+ can contribute an additional $7,500 to their retirement plan. Beginning January 1, 2025, catch-up limits for participants ages 60-63 will increase to the greater of $10,000 or 50% more than the regular limit for 2025.

Beginning January 1, 2024, catch-up contributions for workers with compensation higher than $145,000 in 2023, indexed for inflation, must be made into a Roth account.

Matching contributions for student loan payments.

Beginning January 1, 2024, employers can help alleviate the burden of student debt by matching an employee's qualified student loan debt payment with a corresponding contribution to the employee's retirement plan account.

Reduce eligibility timeline for part-time employees.

SECURE 1.0 required employers to allow part-time workers who work 500 hours for three years to participate in 401(k) plans. Effective January 1, 2025, this will be reduced to two years and will extend to 403(b) ERISA plans.

Saver's Match for retirement plan contributions.

For individuals under certain income thresholds, current law provides a 50% tax credit for up to $2,000 in retirement plan and IRA contributions. Effective January 1, 2027, the tax credit will be replaced with a government match contribution into the person's retirement account. This means if a plan participant makes a total annual contribution of $1,000, the government will contribute $500. If the participant contributes $2,000 or more annually, the matching contribution will be $1,000. Again, this does not go into effect until 2027.

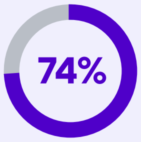
Addressing emergency savings needs

A challenge for many workers is balancing financial needs now and for the future. Two provisions in SECURE 2.0 focus on helping employees manage unexpected expenses.

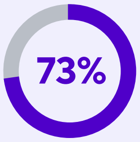
Allowing tax penalty-free access to retirement funds for emergency needs.

Employers may allow individuals to access up to $1,000 from their retirement savings for any unexpected expenses, without incurring the 10% early-withdrawal tax penalty. One distribution per year is allowed and must be repaid before another can be withdrawn. This is effective January 1, 2024.

Penalty-free access to retirement funds for emergencies could increase savings



In the Corebridge survey, **74%** of retirement savers say they would increase their retirement plan contributions.

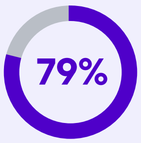


73% of those who have access to a retirement plan but have not started saving say they would begin.

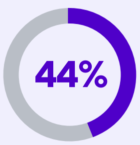
Emergency fund needs and the American Worker survey, Corebridge Financial and Greenwald Research, 2022.

Employer-administered Emergency Savings Accounts.

Another option for helping employees save is establishing after-tax emergency savings accounts (ESAs) that are linked to retirement accounts. Employers can automatically enroll employees at an amount up to 3% of their gross pay, until the account reaches $2,500. Contributions are treated as Roth elective deferrals, which employers can match in the retirement plan, up to the cap. Contributions over the limit can be directed to a Roth account or stopped. Of note, this provision excludes highly compensated employees, those who earn in excess of $150,000 in 2023. This takes effect January 1, 2024.



Three out of four employees are concerned about unexpected expenses and nearly eight in 10 **(79%)** experienced at least one $1,000 emergency in the past three years.



Less than half **(44%)** say they could cover an emergency expense without incurring debt or using retirement funds.

Emergency fund needs and the American Worker survey, Corebridge Financial and Greenwald Research, 2022.

Provisions of note

Elimination of "first day of the month" deferral election rule for government 457(b) plans.

SECURE 2.0 eliminates the requirement that 457(b) governmental plan participants must make a deferral election in the month prior to the compensation being paid. Now, governmental 457(b) plans align with 401(k) and 403(b) plans by allowing participants to change their deferral rate at any time before the compensation is available to the individual. This is effective immediately.

Automatic enrollment and escalation for new retirement plans.

While plan sponsors currently have the option to require automatic enrollment and escalation in retirement plans for new hires, effective January 1, 2025, this will be required for all new employer-sponsored plans. Existing 401(k) and 403(b) plans are grandfathered from this requirement. Employees retain the ability to opt out of automatic enrollment and escalation.

Allowable participation in PEPs (pooled employer plans) for ERISA 403(b) plan sponsors.

PEPs expand on the MEP (multiple employer plans) concept by allowing unrelated 403(b) employers to participate in a single retirement plan. This is now in effect.

Increase in start-up tax credits for small employers.

Organizations with 50 or fewer employees benefit by an increase in the start-up credit for administrative costs from 50% to 100%. In addition, organizations with up to 100 employees are eligible for a start-up tax credit for joining a MEP or PEP, even if the plan is already active. This is now in effect.

Summary

The new law is designed to help plan sponsors take steps to improve their employees' overall financial well-being and retirement preparedness. It addresses some of the barriers to saving for the future, such as worry about balancing current debt and the potential need to cover unexpected expenses. It also considers longevity and the fact that people could spend multiple decades in retirement.

However, legislation is just part of the equation for helping employees. 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. Additional steps plan sponsors can take with help from Corebridge Financial include:

Help maximize savings.

Educate employees about the power of compounding and the importance of starting to save as early as possible to help them avoid having to play catch up later in life. But, if they are behind, make sure employees are aware of catch-up options and other planning strategies that are equally important. Corebridge's financial wellness program, FutureFIT®, helps employees throughout all life stages and personal situations understand where they are in their savings journey and what actions they can take to improve

Educate 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.

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