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Helping Families Build Savings: The SECURE Act 2.0 and Beyond

To build and maintain financial security, families need: access to a retirement plan, to contribute to their retirement plan to build long-term savings, and sufficient short term savings to address unforeseen emergencies and protect retirement savings from early withdrawals.

Savings help families secure a comfortable retirement, weather financial emergencies, make major purchases, and decrease stress.[1] Unfortunately, nearly half of all private sector workers in the U.S. do not have access to an employer-based retirement plan, including over 63% of Hispanic workers, 53% of Black workers, 45% of Asian American workers, and 41% of white workers.[2] Even workers with access to a retirement plan might not use one: over 20% of full-time workers and about 60% of part time workers that have access to a retirement account don't participate.[3] Further, those with access and who choose to participate still may not have sufficient savings by the time they retire; over 22% of contributions made by people 50 or younger leak out of their account each year.[4] People often withdraw retirement funds to address immediate needs, particularly when they don't have short term savings. A recent study found that 45% of households couldn't pay an unexpected $400 expense without dipping into their retirement accounts;[5] this number jumps to 65.2% for Black households, compared to only 46.7% for white households.[6] Congressional action is needed to ensure all workers have access to retirement accounts as well as sufficient short term savings to prevent pre-retirement withdrawals and build retirement savings.

SECURE 2.0 Would Build off 2019 SECURE to Boost Retirement Savings

In 2019, Congress took steps to make it easier for people to save for retirement by passing the bipartisan Setting Every Community Up for Retirement Enhancement (SECURE) Act. The SECURE Act allowed certain part-time workers to participate in 401(k) plans.[7] While SECURE helped to increase retirement savings, more could be done to close coverage gaps and increase access. There are currently two bills that attempt to do this: the House's bipartisan Securing a Strong Retirement Act of 2022 (SECURE 2.0) that passed in March 2022,[8] and the Senate's bipartisan Enhancing American Retirement Now (EARN) Act, which is up for a Senate vote after unanimously clearing the Finance Committee in June 2022. Before SECURE 2.0 becomes law, the Senate must pass the EARN Act and key differences between the two bills need to be reconciled.

Sections of SECURE 2.0 & EARN Work Because They Leverage Behavioral Science

At the ideas42 Policy Lab, we have leveraged our expertise in applied behavioral science to identify the key provisions from current versions of the EARN Act and SECURE 2.0 that should be included in a final version of SECURE 2.0.

Automaticity and Defaults Increase Participation in Savings: A key insight from behavioral science is that humans have limited cognitive bandwidth and attention, yet we are faced with millions of choices every day. Programs that reduce the cognitive load on participants, namely by automating processes and providing default options, make engagement easier for busy people.[9] Both bills have provisions that include automatic processes or defaults to increase saving:

Section 101 of SECURE 2.0 would require certain employers to **automatically enroll** new employees in a retirement plan, default employees into a contribution rate between 3-10%, and **automatically escalate** contributions by 1% annually to 10-15%.

Section 118 of the EARN Act would **automatically transfer** IRA's with less than $5,000 from the participant's former employer to their new employer's retirement plan when they switch jobs. This would affect over 5 million people annually.[10]

Financial Incentives Can Motivate Pro-Saving Behavior: Financial rewards, even small micro-incentives, can have outsized impacts on behavior.[11] Financial incentives can also serve as cues that trigger certain behaviors repeatedly, leading to habit formation.

Some proposed provisions include financial incentives that motivate small business employers to provide retirement plans to their employees. Additional provisions provide financial incentives to encourage employees to save.

Section 601 of the EARN Act would provide a **tax credit** to small employers (those with fewer than 100 employees) that offer retirement plans with defaults, automatic processes, and matching contributions specified in the EARN Act.

Section 612 of the EARN Act would provide a **$500 credit** to small employers that automatically re-enroll employees into the default contribution rate (at least every 3 years) if the employee has elected a contribution rate below the default.

Section 114 of SECURE 2.0 and Section 107 of the EARN Act allow employers to provide a **small financial incentive** to employees for contributing to their employer-sponsored retirement plan.

Section 102 of the EARN Act would make the Saver's Credit—a tax credit for low- and middle-income households that save for retirement—**fully refundable**, so that people with the lowest incomes can access it, and automatically deposit the credit into a participant's retirement plan, rather than disperse it as a tax return.

Trusting People Promotes Self-Efficacy while Saving: People need to feel empowered to make their own choices. When people feel forced or coerced, they may avoid engaging in certain behaviors, even behaviors in their best interest. SECURE 2.0 must promote self-efficacy so people can save on their terms. Several provisions trust participants to make their own choices while saving:

Section 105 of the EARN Act **trusts employees** to make tax-free withdrawals of up to $1,000 in a given year for emergency expenses, defined as unforeseeable or immediate financial needs related to personal or family expenses.

Section 317 of SECURE 2.0 and Section 113 of the EARN Act **allows employers to trust employees** when they state that conditions for a hardship distribution have been met, defined as a withdrawal made to address an immediate and heavy financial need, even if it was foreseeable.

All provisions referenced have opt-out features. This means that no decisions are forced upon employers or employees. Instead, **people are trusted** to make their own financial decisions, but the architecture around them is structured to facilitate increasing savings.

SECURE 2.0 Could Go Beyond Current Proposals to Promote Savings

Even if SECURE 2.0 passes, millions of nontraditional workers—including contract, gig, and independent workers—would still lack access to an employer-based retirement plan.[12] To close this coverage gap, Congress should establish a national savings plan (modeled off the plan provided to federal employees) for workers who lack access to an employer-based retirement plan.[13] Workers not covered by an employer would be automatically enrolled into the national plan, with the ability to opt-out.

Providing all workers with a retirement plan would not guarantee their future financial security; additional actions are necessary to prevent leakage when short term expenses arise. A promising national solution could be modeled off the MarylandSaves program, which provides uncovered workers with an emergency savings account dedicated for short term expenses in addition to a retirement plan.[14] The worker's payroll deductions first fill their emergency savings account up to $1,000 and then go towards their 401(k). Tax-free withdrawals can easily be made from their emergency account for immediate expenses. Additional contributions replenish the emergency account first (if applicable) before adding to their 401(k). A national version of MarylandSaves would help build short term savings to reduce leakage.

In summary, an ideal final version of SECURE 2.0 would:

1. ensure all workers, including nontraditional workers, have access to a retirement plan; and
2. provide all workers with an emergency savings account to address short term or unexpected expenses.

Congress Should Go Beyond SECURE 2.0 to Promote Financial Security

People can't save money if they don't earn enough to first cover their basic needs; unfortunately, this is too often the case. Many workers do not earn enough money to cover their family's everyday expenses and save for retirement. Additionally, some policies block people from saving by imposing asset limits on programs that help them meet their basic needs. Congress could take several steps to ensure that people can cover their basic needs and save for retirement:

1. Extend the Child Tax Credit: In response to the COVID-19 pandemic in 2021, Congress extended the Child Tax Credit (CTC) by expanding benefits and improving access.[15] This policy helped families meet their basic needs,[16] increased savings,[17] and cut child poverty by an estimated 46%.[18] The expanded CTC expired in 2021, but Congress could permanently extend the CTC to help families cover their basic needs and increase savings.

2. Pass the SSI Restoration Act: Under current law, people who receive Supplemental Security Income (SSI) can't have more than $2,000 saved to remain eligible for benefits.[19] Asset limits force people to choose between saving for retirement or qualifying for benefits; often, they lead to reduced savings.[20] Congress should pass the SSI Restoration Act, which increases SSI's asset limits and benefit amounts, to ensure disabled people and other adults with low incomes can address short term needs and save for retirement.[21]

3. Improve the Earned Income Tax Credit: Like the CTC, Congress expanded the Earned Income Tax Credit (EITC) in response to the COVID-19 pandemic. The changes, which also expired in 2021, temporarily expanded eligibility and increased credit amounts.[22] Families use their EITC to cover everyday expenses and build savings,[23] and Congress should expand and improve the EITC to better help workers do both[24] and increasing automatic processes.

Endnotes

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