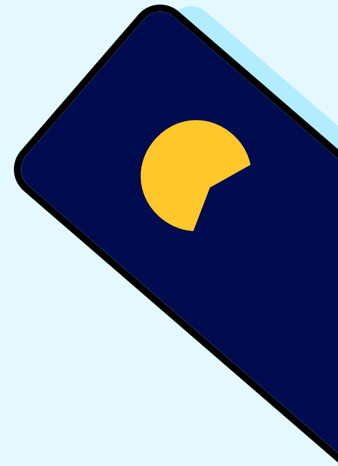
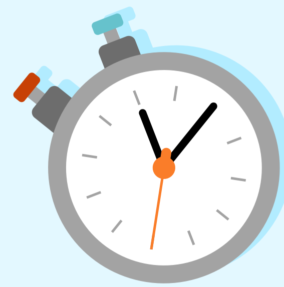
Betterment at Work



The **SECURE 2.0 ACT** Playbook



How to create a modern 401(k) plan to attract and retain talent.

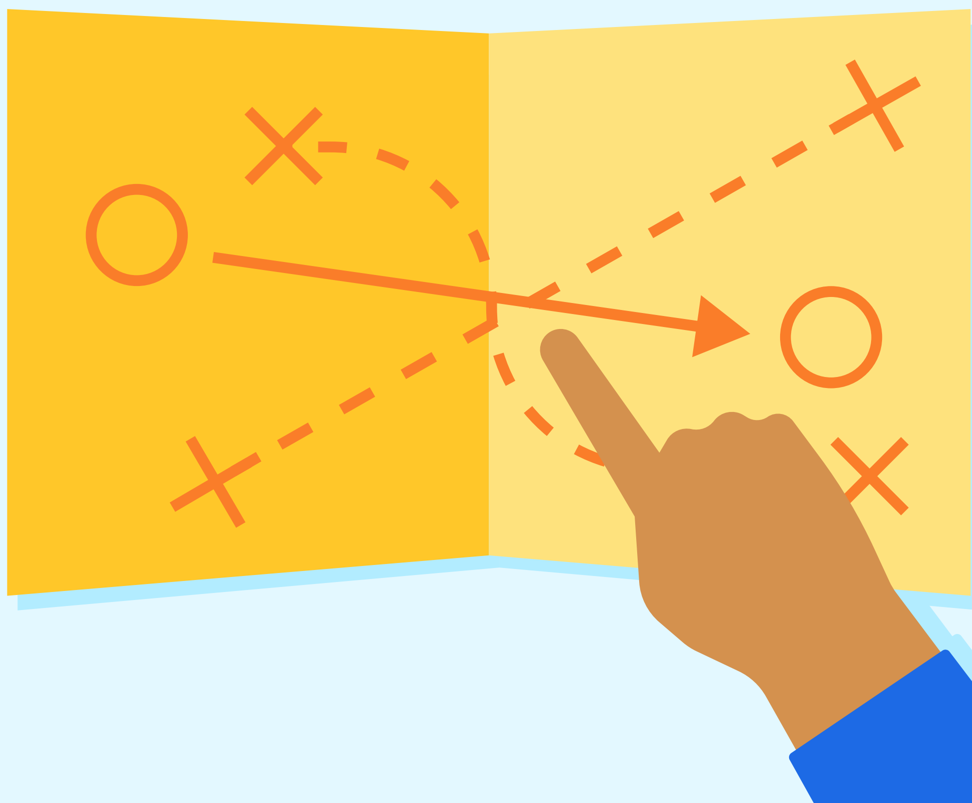


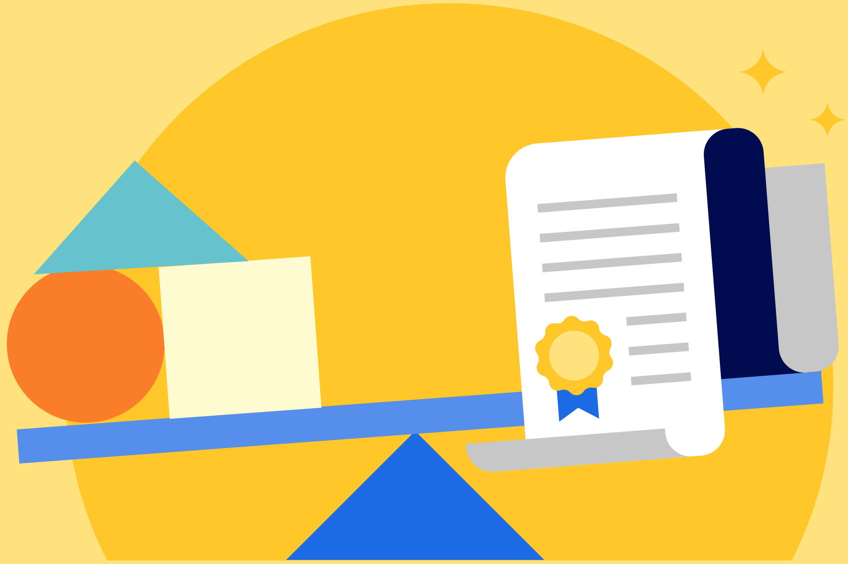
TABLE OF CONTENTS

CHAPTER 1

Your opportunity: Leveraging the SECURE 2.0 Act

With over 90 provisions, the SECURE 2.0 Act has created one of the largest opportunities in history for employers to support their employee's financial wellness, primarily through their 401(k) plans.

SECURE 2.0 positions savvy HR and business leaders to create highly attractive 401(k) programs. But the Act is complex, and it's a lot to manage.



With so many details to consider, how do you go about making the most of SECURE 2.0, ultimately increasing the ROI on your 401(k) plan?

This ebook is designed to help do exactly that: Go beyond the facts of the provisions, helping you and your leadership team get the most value from your 401(k) plan. We'll focus on some of the Act's most important provisions that can help you attract and retain talented employees.

As you read this ebook, some things to consider if you are:

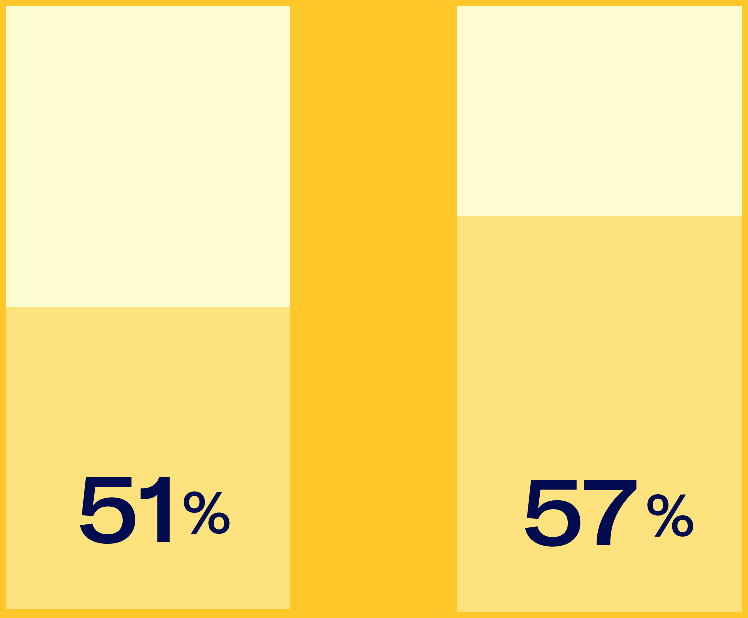
1. **Starting a new 401(k) plan.** If you're thinking about starting a new plan, pay special attention to topics like tax credits, automatic enrollment/escalation, and employer contributions. This ebook will help you make implementation decisions for your new plan.

2. **Managing an established 401(k) plan.** Think through which plan changes you may need to make to increase the competitiveness of your 401(k) plan. We'll guide you through assessing offering 401(k) matching contributions on student loan payments and how your 401(k) fits into your larger total rewards benefits package.

Do you know your SECURE 2.0 provisions?

This ebook is designed to help you make strategic decisions around SECURE 2.0. For a detailed list of provisions, download our SECURE 2.0 Employer Checklist.

Based on our research:



51% of employees would consider leaving their job for a 401(k)

If you add on employer matching contributions, the figure jumps to **57%**.

CHAPTER 2

Setting up your leadership team for SECURE 2.0 success

Be prepared to answer the following questions for each leadership role. This is not an exhaustive list of questions, and positions may be slightly different at your company, but it should help you get into the mindset of each stakeholder.

Bonus tool: For a full overview of what to consider when building out a 401(k) plan, check out our Plan Design guide.

- **CEO / Board of Directors:** What are the overall costs and/or ROI of implementing SECURE 2.0 provisions? What is the implementation plan to successfully roll out the changes? Is the 401(k) plan competitive within the industry?
- **Chief Financial Officer / Chief Operating Officer:** How will adopting SECURE 2.0 provisions impact plan administration efficiency and cost? Who is responsible for administering provisions and processes?
- **Chief Risk / Compliance Officer:** Are provision implementation deadlines being met? How does adopting these provisions impact 401(k) nondiscrimination testing? Are policies, procedures, and plan amendments being updated as needed?
- **Chief Human Resources Officer:** What is the best employee communications approach to implementing SECURE 2.0 provisions? Are current HR vendor integrations, like payroll, sufficient to implement SECURE 2.0 efficiently? Do the provisions have implications on the 401(k) plan's role within the organization's total rewards program?

CHAPTER 3

The right technology for a SECURE 2.0 world

Good 401(k) technology can be represented as an equation:

Technology = Automation + Integration

SECURE 2.0 leaves you facing a tech challenge, and you need a strong tech partner that both automates processes and integrates with third parties.

Your 401(k) technology partner should be able to:

- **Automate:** For example, You shouldn't be manually updating tasks like auto-enroll and auto-escalation. Or if you choose to offer matching contributions on student loan payments, make sure your platform has the technology to efficiently process those transactions, as well.
- **Integrate:** Data management is only becoming more important in implementing the new provisions. You'll want to make sure you have integrations with your payroll provider that allow you to move the right data between systems. Make sure you can integrate data like hours worked to allow for easier implementation of provisions like plan participation by long-term, part-time workers. Also, as provisions like the mandatory Roth catch-up contribution (which has been delayed until 2026) go live, your 401(k) platform should facilitate processing the right data to stay in compliance and reduce manual work.

At Betterment at Work, we connect with most major benefit providers to securely sync data, track eligibility, and process employee contributions seamlessly.

The Act is designed to help people save for retirement, but if your 401(k) platform isn't built on modern technology, you won't be able to incorporate the provisions efficiently. You could be stuck with hours of costly manual work.

CHAPTER 4

How to use SECURE 2.0 to enhance your total rewards program

In a competitive business environment, total rewards—the monetary and non-monetary benefits you offer—can be the difference maker for attracting and retaining top talent. We encourage companies to view SECURE 2.0 as a chance to implement new, modern 401(k) features and to highlight the value of their 401(k) benefit as part of their total rewards program.

Benefits that make a difference

Although many SECURE 2.0 provisions are mandatory, the act gives employers some implementation flexibility along with some optional provisions. Review provisions to see how they could be leveraged to increase the value of your 401(k) program.

A sample of the provisions that may add value to your total rewards program include:

- 401(k) student loan payment matching (Optional)
- Automatic enrollment (Required for plans established after 12/29/22)
- Automatic escalation (Required for plans established after 12/29/22)
- Long-term, part-time employee eligibility (Required)

Examine how the provisions interact with each other and how they interact with other benefits you offer. The combination of benefits together can create valuable packages to attract talent.

Three tips for integrating SECURE 2.0 into your total rewards

Think holistically about your benefits and employees' needs. Then, bring it all together using data to create a clear picture of your total rewards program.

1. **Understand your benefits:** Review how SECURE 2.0 provisions may interact with other benefits, for example how 401(k) student loan matching may overlap with a tuition reimbursement program. You'll want to analyze different scenarios to understand how benefits may or may not pair well together.

2. **Understand your employees:** Choose to implement provisions based on the needs of your current and prospective employees. Review current adoption of benefits and survey employees to get clarity on what they value.

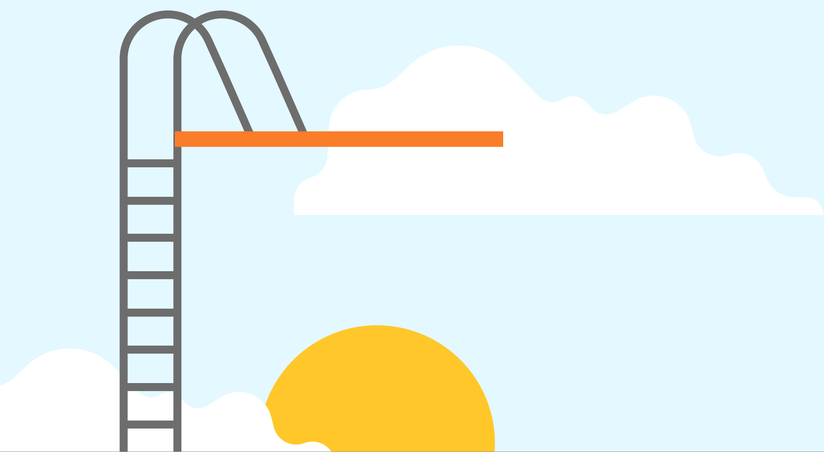
3. **Understand your data:** Measure the adoption of your new 401(k) features and use the data to communicate value to stakeholders—including employees, management, and your board of directors. This can help you in estimating the ROI of your total rewards program and gain a better understanding of its influence on employee retention.

Employee communication is the key to success. As you implement provisions from the SECURE 2.0 Act, it's also an opportunity for you to re-educate your workforce on all of the benefits you provide. Consider using a "total rewards statement" to show employees the aggregate.

CHAPTER 5

Deep dive: 401(k) match on student loan payments

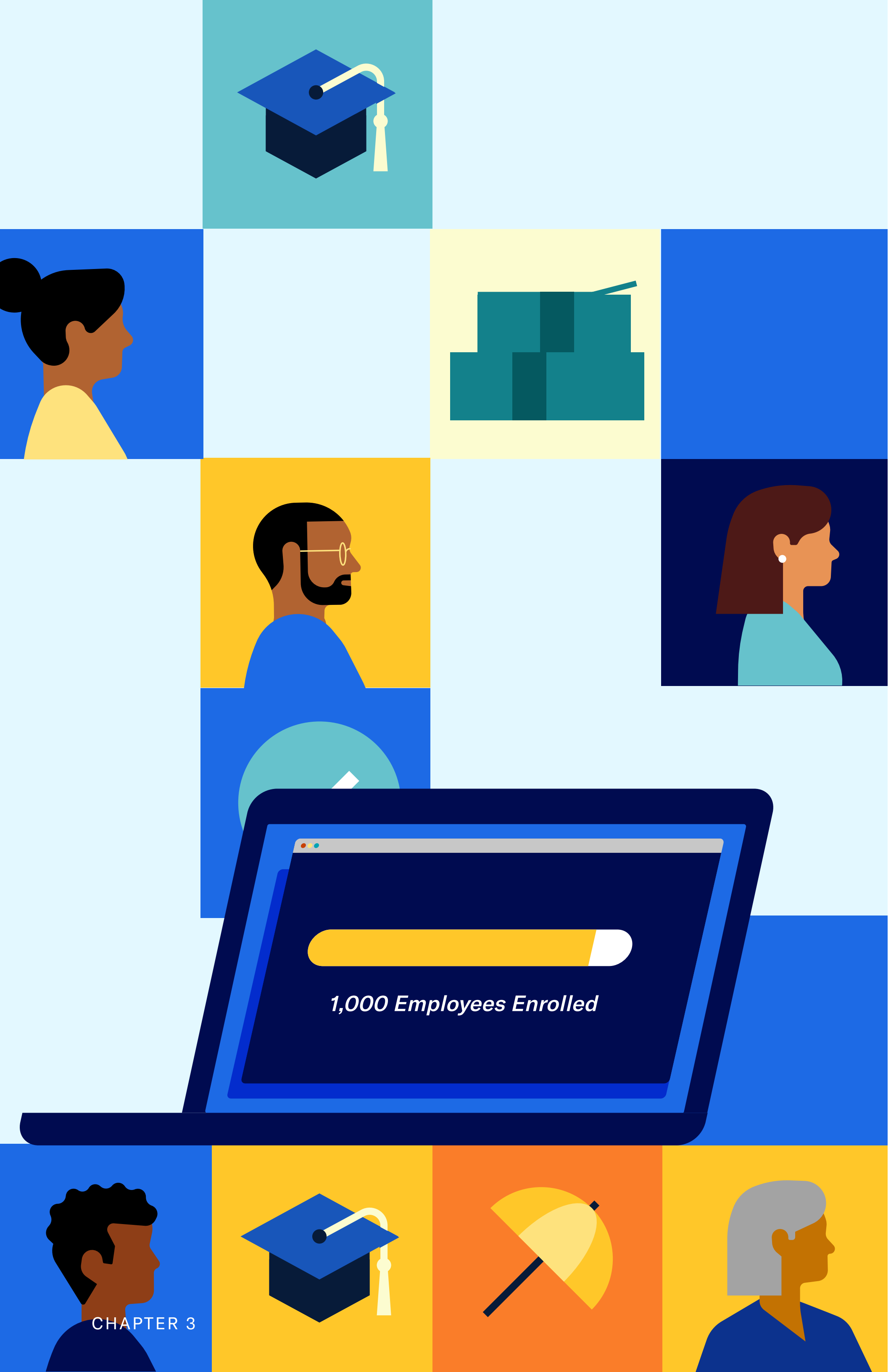
401(k) matching on student loan payments has received a lot of attention, especially as the COVID-19 payment pause ended in October 2023. This could be an important benefit for many moving forward. Let's start by covering some facts about the provision included in the SECURE 2.0 Act.



401(k) student loan matching is effective January 1, 2024.

Qualified student loan repayments could count as elective deferrals and qualify for 401(k) matching contributions from their employer. Employees who take advantage of this would be compliance tested separately. At a high level, there are three things to know:

1. Employees are required to certify that they made loan payments. They do not have to show proof of payments if the employer doesn't require it. An employer can rely on employee certification alone.
2. Matching contributions must vest on the same schedule as salary deferral matching contributions.
3. Employers can make matching contributions less frequently than salary matches, although contributions must be made at least once a year.



History of the 401(k) match on student loan payments

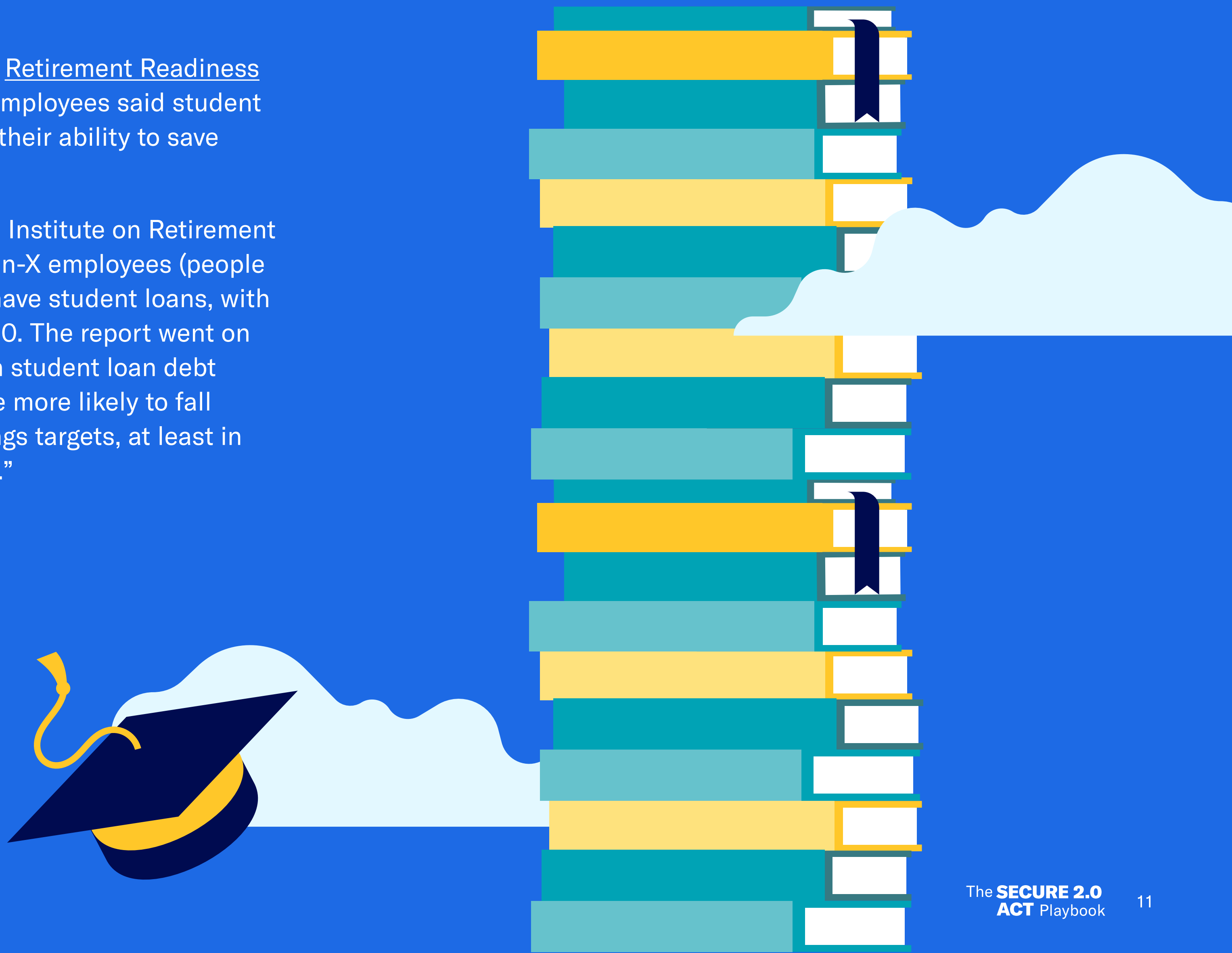
Prior to SECURE 2.0, 401(k) student loan matching was not an option for employers. But Abbot Laboratories saw a need (and an employee retention tool). In 2018, the IRS approved a request from Abbot to offer a 401(k) student loan matching program. One year after launching the program, more than 1,000 Abbott employees had signed up, ranging in age from 20 to 60 and proving demand for the benefit.

Today, the provision in the SECURE 2.0 Act makes it possible for nearly all employers to offer a similar style 401(k) student loan matching benefit.

Is the need greater than we think?

It's well known that Millennial and Gen-Z employees are often overburdened by student debt, but recent data shows that the need for 401(k) student loan payment matching may be even greater than we think.

- In Betterment at Work's 2023 Retirement Readiness study, we found that 64% of employees said student loans have had an impact on their ability to save for retirement.
- A 2023 report by the National Institute on Retirement Security found that 13% of Gen-X employees (people born from 1965 to 1980) still have student loans, with an average balance of $40,000. The report went on to say, "...those Gen-Xers with student loan debt have lower net worths and are more likely to fall short of their retirement savings targets, at least in part due to student loan debt."



How to decide if you should offer a 401(k) match on student loan payments

Our three-step process balances the needs of your people, your budget, and your operations to decide if offering 401(k) matches on student loan payments is right for your company.

Step 1: Assess your people's needs

When thinking about your team, it's important to consider your current employees and future hires. The workforce is evolving and the needs of your employees may evolve too as you hire.

- **Your future employee's needs:** Your workforce in a few years might look different than your workforce today. Consider the types of employees you want to attract over the coming years. For recent grads, 401(k) student loan matching could be a differentiating factor when deciding where to accept a job.
- **Your current employee's needs:** You'll want to review your workforce's current participation in your 401(k) plan. If you see that enrollment and savings are high, you may not have a need. On the other hand, if you see larger portions of younger graduates not enrolled, student loan matching may be a good fit. If feasible, talk with your employees to better understand their needs. Remember, it's not always younger employees who are paying student loans. (Tip: If you offer other student loan benefits, like direct reimbursements, look at who is using those benefits and whether those employees are also contributing to their 401(k). 401(k) student loan matching may be a good fit if you see a savings problem.)

Tip: If you offer other student loan benefits, like direct reimbursements, look at who is using those benefits and whether or not those employees are also contributing to their 401(k). 401(k) student loan matching may be a good fit if you see a savings problem.)

Step 2: Review your budget

The goal of reviewing your budget is to walk away with a confident estimate of the total annual costs of offering the benefit. Knowing that, you can decide if the cost makes sense. There are two aspects of cost to consider when budgeting for offering a 401(k) match on student loan payments.

1. **Matching contributions:** You'll need to review the cost of matching contributions, considering employees for whom you previously did not provide matching contributions. Your goal is to calculate the incremental cost. You may already be budgeting for these potential contributions if you include them in your salary match budget. But it's important to estimate the actual increase you could see year-over-year in matching contributions.

2. **Operational costs:** Depending on your 401(k) provider, you may have technology-related costs, although they should be minimal in most cases. Also, consider "soft costs" like employee time used to manage operating processes. With the right technology, these operational costs should be relatively low.

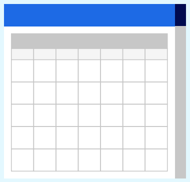
Step 3: Understand your operational needs

When analyzing how to efficiently manage this new plan feature, examine how technology and employees will drive the process. We recommend mapping out a process as you initially launch 401(k) student loan matching.

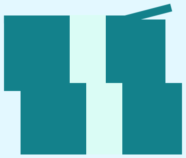
- ✓ **Automation via technology:** Work with your plan's tech platform to understand their capabilities. Ideally, most of the process will be streamlined for you and your employees.
- ✓ **Human intervention:** There will most likely be some manual intervention, such as approving qualified student loan payments in order to process the matching contributions. Understanding who on your team will complete these tasks will help create an efficient process.

Understanding the costs of a 401(k) match on student loan payments

First, let's take a wider view of cost. Replacing a single employee may not directly show up on your company's financial statements, but it's expensive, no matter the company, especially if it happens more than once.



One report by SHRM cites employee replacement costs as being **six to nine months** of an employee's salary.



Another report by Gallup cites one-half to **two times** the employee's annual salary.

Employee replacement costs to consider include:

- **Hard costs:** These are straightforward to quantify and include hiring costs like HR staff, technology, and job postings. Once an employee is hired there are also hard costs like onboarding training, new equipment, and processing paperwork.
- **Soft costs:** These can be murky to measure but impact every hiring decision. Soft costs include the time spent by employees who help with the hiring process, from interviews to position description reviews and onboarding planning. As a new employee joins the company, these costs continue with additional onboarding meetings and lowered productivity as the new team member gets up to speed.

Now that you've considered the real costs of recruiting and onboarding a new employee (vs. retaining a good team member), we can talk about the cost of a 401(k) student loan matching program.

Provision implementation costs may include:

- **Participant Fee:** If you are using a modern 401(k) tech platform, these costs are minimal—often ranging from $5 to $10 per month. You can also consider passing these small costs on to the employee.
- **Nondiscrimination testing:** Depending on your 401(k) provider, an increase in participants may result in increases in fees for additional compliance testing. (Note: At Betterment at Work, there are zero additional compliance testing fees if your plan has an increase in participants.)
- **Matching contribution costs:** If more employees use the 401(k), contributions may increase, although some companies may have already budgeted for a portion of these in their overall 401(k) match budget.
- **Administrative costs:** Tracking self-certifications requires implementing a process. This can be reduced if your company leverages technology to streamline this workflow.

There are costs to administering the 401(k) student loan match provision. But compared to losing a talented employee, provision costs may be far less. Think of the match benefit as an investment in talent.

Calculating ROI of 401(k) match on student loan payments

It’s important to note that when calculating ROI for your company, you should take into consideration each employee’s unique value and the costs associated with replacing their role.

To help illustrate, consider the following hypothetical example of an employee making $75,000 at a company offering a 6% 401(k) match.

An employee making $75,000 could cost between

$37,500-$150,000

to replace using the benchmark of one-half to two times the employee's annual salary.

401(k) match on student loan payments

$4,620-$5,000

/yearly

If that employee uses the 401(k) student loan matching program with a 6% match, the employer would pay $4,500 in matching contributions.

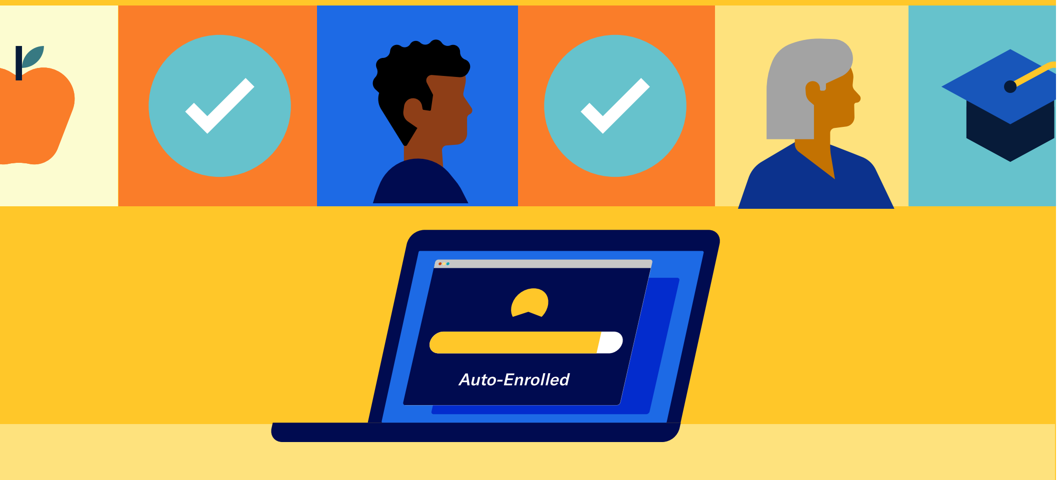
We’ll add on $120 per year in estimated monthly participant plan fees plus potential administrative costs estimated at a few hundred dollars to process and test this employee’s student loan match.

We see that with a full employer match plus administrative fees, we are still not even close to the costs associated with needing to replace the employee. It would take over seven years in 401(k) matching costs to reach the low-end cost of replacing the employee. That’s without considering the value a satisfied, tenured employee brings in workplace production, institutional knowledge, cultural contributions, and more.

CHAPTER 6

Implementing automatic enrollment and escalation

Let's take a look at how to implement two of the new defaults—automatic enrollment and automatic escalation—for 401(k) plans under SECURE 2.0.



How does automatic enrollment work?

Beginning in 2025, the SECURE 2.0 Act makes Eligible Automatic Contribution Arrangement (EACA) the default for all 401(k)s created December 29, 2022 or later, again with a few exceptions.

- ✓ That means for those plans, employees' deferrals must be set between 3% and 10%.
- ✓ Newly auto-enrolled participants must also have a 90-day window to request their funds back.

You can also consider a Qualified Automatic Contribution Arrangement (QACA) by way of a Safe Harbor 401(k) plan. That means you've already committed to, among other things, a specific threshold of employer contributions.

Beginning in 2025, here are the options for newly-created plans:

Beginning in 2025, for all plans with effective dates of December 29, 2022 or later	Eligible Automatic Contribution Arrangement (EACA)	Qualified Automatic Contribution Arrangement (QACA)
Employees enrolled at preset contribution rate between 3% and 10%	✓	✓
Employees can opt out or change contribution rate	✓	✓
Employees can request refunds of deferrals within first 90 days	✓	✓
Requires employer contributions (i.e. Safe Harbor) and accelerated vesting schedule		✓

Auto-enrolled, but at how much?

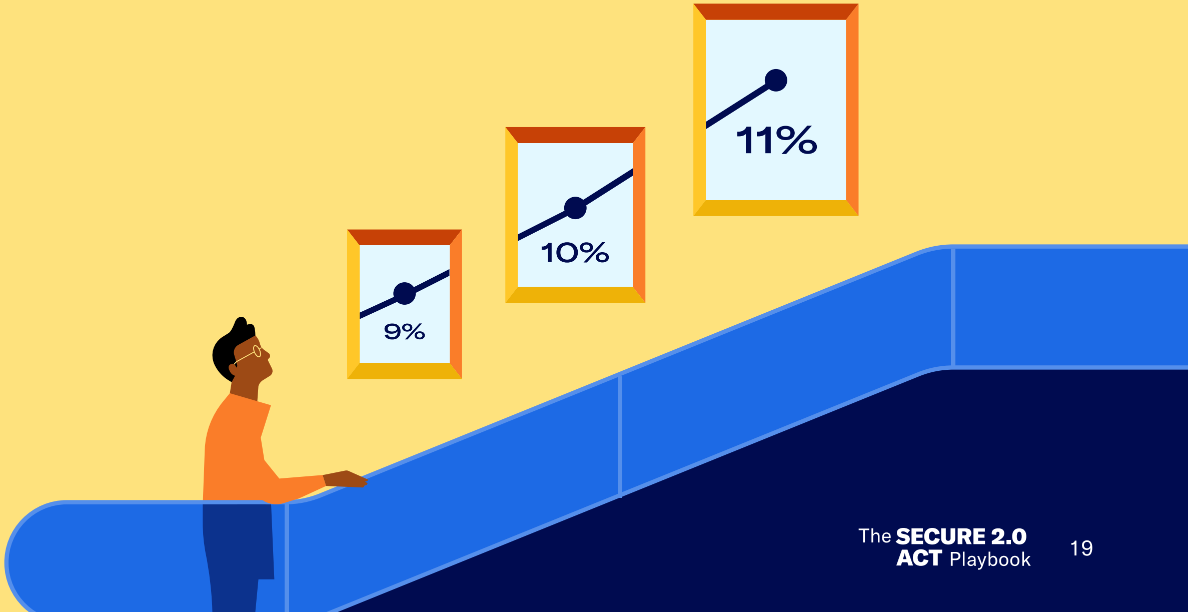
With auto-enroll plans, you pick your employees' default contribution rate. This begs the question: how high should you set it?

- ✓ A default contribution rate of 3% used to be the most common, but that changed recently.
- ✓ According to the Plan Sponsor Council of America's 64th Annual Survey, a 6% rate became the most popular in 2020.
- ✓ Our own data shows no evidence of higher default contribution rates leading to higher numbers of opt-outs.

How does automatic escalation work?

Under SECURE 2.0, in addition to requiring automatic enrollment at a default rate between 3% and 10%, 401(k) plans are required to automatically escalate contributions at 1% per year to at least 10% (but no more than 15%). Employees can change their contribution rate or opt out of the plan at any time.

Automatic escalation is a requirement for plans with an initial effective date on or after December 29, 2022. Businesses in existence for fewer than three years, as well as those with 10 or fewer employees, are exempt. The provision itself is effective on January 1, 2025.

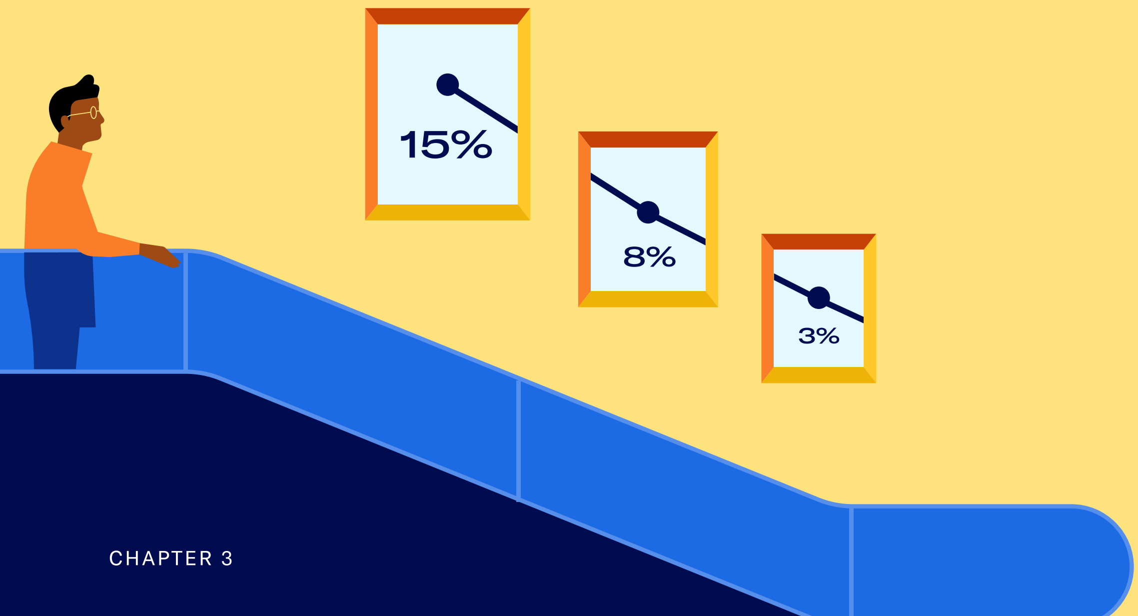


Consider this when setting your maximum escalation rate

When you implement automatic escalation, you'll need to decide your maximum rate, from 10% up to 15%.

We like to think about automatic enrollment and automatic escalation together. Consider your default automatic enrollment rate when determining the limit to your escalation rate.

For example, if you have a default enrollment rate of 8%, then a 15% escalation maximum rate might make sense, giving employees more room to grow their savings. Whereas a plan with a 3% default enrollment rate may want to consider a lower maximum escalation rate.



Also, consider your employer match, if you offer one. Experts recommend saving 10-15% of income each year for retirement, and this includes the employer match.

- ✓ For example, if you are matching 5% and your automatic enrollment default rate is 8%, any employee who does not change their default rate is saving 13% of their income.

Every company is different. It's important to review different potential scenarios and keep in mind your employees' needs when setting default enrollment and escalation rates.

Communicating the value of automatic escalation to employees

Clearly communicating the purpose of automatic escalation is important. If an employee doesn't understand why the change is happening, they may fear it or be surprised to see an increased contribution if they were not expecting it.

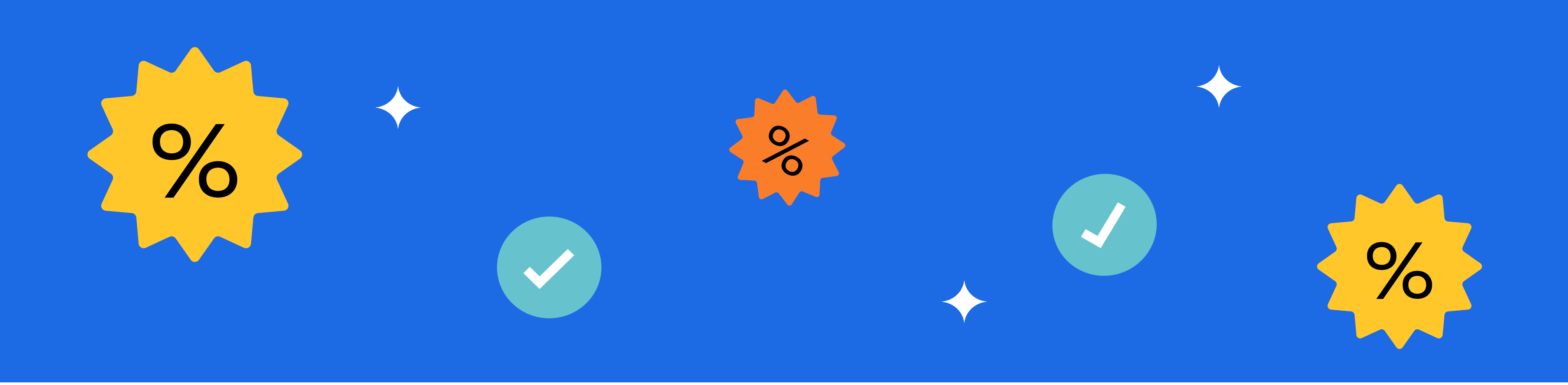
Take the time to explain the purpose of automatic escalation. Consider this sample language when implementing the change with your employees:

Recently, a new law was implemented called the SECURE 2.0 Act. Its purpose is to help Americans save more for retirement. Part of the Act that we'll be adopting is called automatic escalation. Automatic escalation increases an employee's contribution rate to their 401(k) plan by 1% each year until the contribution reaches [INSERT YOUR PERCENTAGE]. It's designed to help everyone participating in our 401(k) build retirement savings faster. Experts recommend saving 10-15% of annual income for retirement and automatic escalation helps everyone get closer to that amount. But don't worry, if you are not comfortable with the escalation, you have the option to change your contribution rate or opt out of the plan at any time. We're excited about this change and are proud to continue to evolve our 401(k) program to make saving even easier.

We encourage you to use this language to fit your organization's needs, including any mandatory communications. What's most important is that your employees see automatic escalation as a positive change.

CHAPTER 7

- Provides businesses with fewer than 100 employees a three year tax credit for up to 50% of plan start-up costs.
- Increases the tax credit to up to 100% of the plan start-up costs for employers with 50 or fewer employees.
- The credit is based on the greater of $500 OR $250 per non-highly compensated employee (NHCE), capped at $5,000.



Automatic Enrollment Credit:

- Employers with new or established 401(k) plans that add automatic enrollment can take advantage of a $500 tax credit.
- Employers can claim this tax benefit for up to three tax years if they have 100 or fewer eligible employees.

Employer Contribution Credit:

- Offers a new tax credit to employers with 50 or fewer employees, encouraging direct contributions to employees, as much as $1,000 per participating employee with wages less than $100,000 (indexed annually).
- The credit covers the first five years of the plan allowing 100% of the employer contribution to be claimed in the first and second tax years, 75% in the third year, 50% in the fourth year, and 25% in the fifth year.
- The credit also applies to employers with 51-100 participants, but the amount of the credit is reduced by 2% per employee over 50 employees earning less than $100,000 per year.

SAMPLE SCENARIO

Understanding the math

To illustrate how tax credits can impact a business, consider the following hypothetical scenario for a business starting a new 401(k) with 25 participating NHCEs with wages less than $100,000 and a $3,000 average annual employer matching contribution per employee.

	Startup Tax Credit	Employer Contribution Credit	Automatic Enrollment Credit	Total Credits
Year 1	$5,000 ($250 per NHCE up to $5,000)	$25,000 (100% or $1,000 max per employee)	$500 ($500 per year)	$30,500
Year 2	$5,000 ($250 per NHCE up to $5,000)	$25,000 (100% or $1,000 max per employee)	$500 ($500 per year)	$30,500
Year 3	$5,000 ($250 per NHCE up to $5,000)	$25,000 (100% or $1,000 max per employee)	$500 ($500 per year)	$30,500
Year 4	$0 (No credit)	$25,000 (50% or $1,000 max per employee)	$0 (No credit)	$25,000
Year 5	$0 (No credit)	$18,750 (25% or $1,000 max per employee)	$0 (No credit)	$18,750

Note: All information provided above is hypothetical for educational purposes only. For employers using the employer contribution tax credit, a tax deduction won't typically apply. Please review scenarios unique to your plan with your accountant to decide which tax credits and deductions are best for you.

OUR SOLUTION

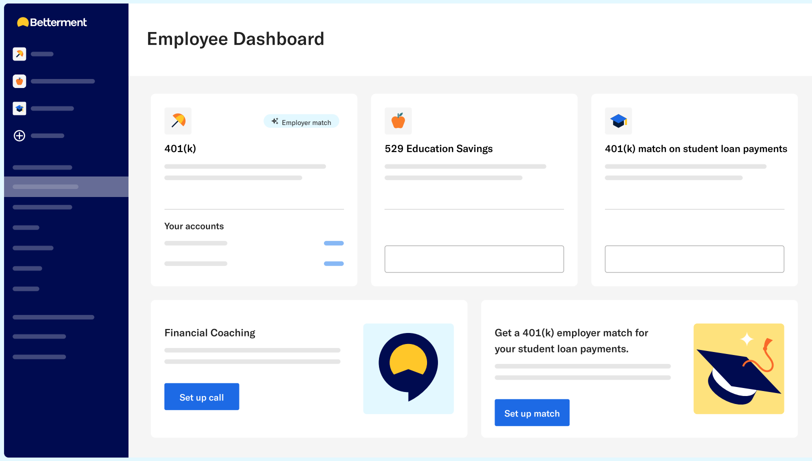
Checklist for leveraging SECURE 2.0

As you implement SECURE 2.0 provisions, build out a checklist specific to your organization to make sure you consider all relevant details.

Here's a list to get you started.

- [ ] Talk with your 401(k) plan provider: Understand how they are operationalizing each provision and what that means for your processes.
- [ ] Determine which optional provisions you will implement: Research each provision, consider surveying employees to measure demand, and conduct a budget analysis.
- [ ] Determine how you will implement mandatory provisions: Work with your management team to decide how to implement mandatory provisions such as automatic enrollment and escalation.

- [ ] Provide pre-launch communication to employees: Explain that positive changes are coming and what to expect.
- [ ] Distribute launch communication to employees: Hold meetings and distribute materials explaining new benefits including their value, timing of changes, and how to access benefits. Consider using a formal "total rewards or benefits statement" to show the value to employees.
- [ ] Communicate to prospective employees: Update benefits listings on your website, job descriptions, and other public-facing locations to attract your ideal employees.
- [ ] Measure adoption and value: Working with your 401(k) provider, measure the adoption of your 401(k) features and use the data to communicate value to stakeholders including employees, management, and your board of directors.



Partner with a modern 401(k) platform

Your 401(k) plan should be easy to manage for you and easy to use for your employees. Our technology streamlines this, whether via integrations with common payroll providers or through our intuitive platform that helps employees invest in low-cost, diversified ETFs.

Enhance your 401(k) plan with modern financial benefits

We've developed additional benefits that integrate with our 401(k) platform to make managing benefits easier and reduce the financial stress that your employees carry.

Financial Coaching

Help employees take better control of their personal finances with tailored 1:1 guidance and advice. Adding Financial Coaching to your Betterment 401(k) can help build a more confident, productive team. Plus, as a fiduciary, every financial advisor at Betterment is legally responsible to act in your employees' best interest.

529 Education Savings

Including 529s in your benefits package helps employees tackle rising education costs and shows your commitment to their financial health. It's easy to manage, with 529s integrating into your existing benefits platform for a seamless experience.

401(k) match on student loan payments

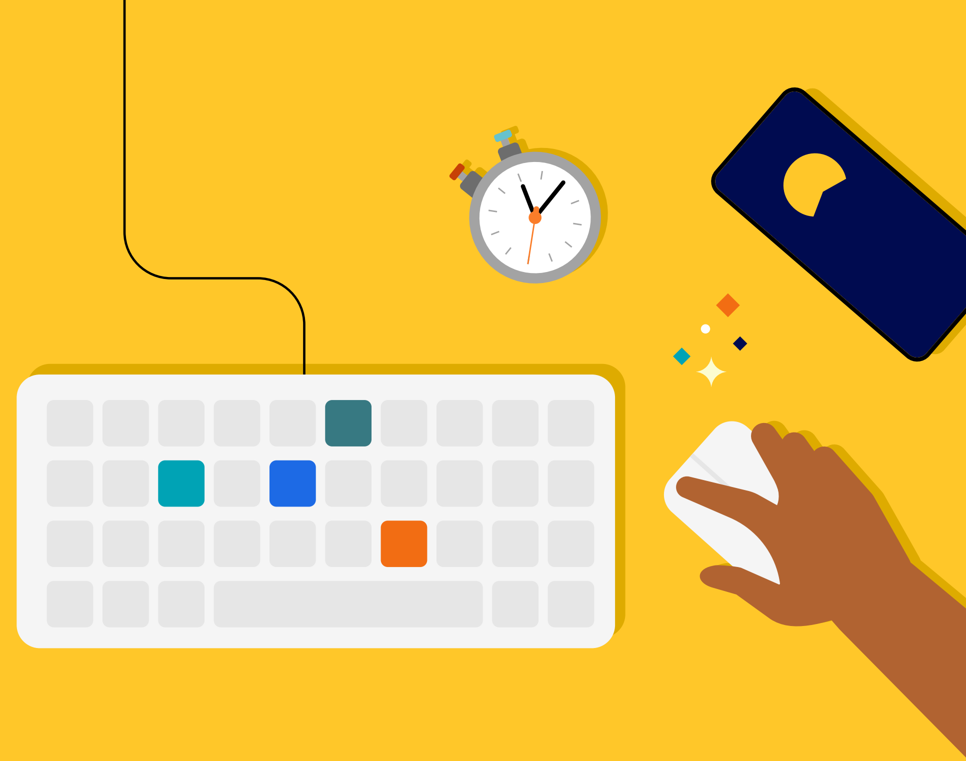
Employers can relieve the burden of student loan payments by offering a 401(k) match for employees' paying down qualified student loans.

Betterment at Work

Ready to get started or want to chat about the implications of SECURE 2.0?

Email us at 401k@betterment.com.

Already a client? Your Betterment at Work team will continue to keep you informed regarding any developments. As always, you can reach out to plansupport@betterment.com with any questions.



529 accounts and their plans are held and managed by program administrators and managers outside of Betterment. 529s are only available as part of a bundled offering with a Betterment 401(k). Not available in the Essential plan.

For financial coaching services, additional fees apply for use in the Pro plan. Services not available in the Essential plan.