Fidelity INVESTMENTS

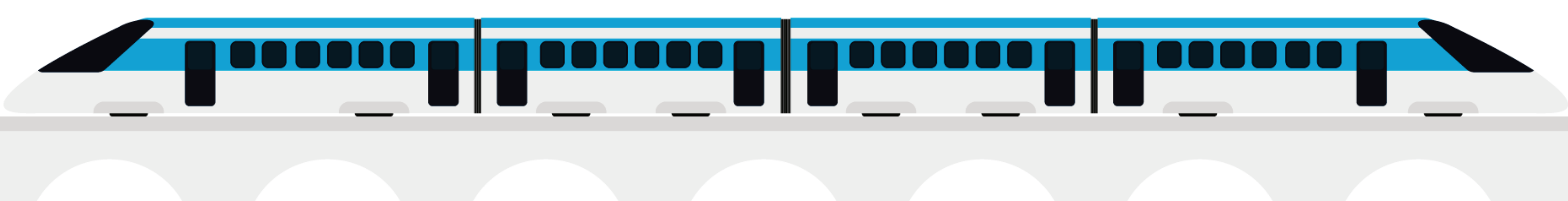
WORKPLACE THOUGHT LEADERSHIP

Meet SECURE 2.0

Modernizing benefits infrastructure to fast-track workplace savings

The SECURE 2.0 Act of 2022, also known as "SECURE 2.0," is a sweeping new retirement law that seeks to boost retirement savings and modernize many longstanding saving and distribution rules. The law reforms elements of workplace retirement plans including defined contribution (DC) plans and defined benefit (DB) plans, as well as Individual Retirement Accounts (IRAs). Importantly, the law creates opportunities for retirement providers and plan sponsors to integrate new workplace benefits that address everyday obstacles when saving for retirement, like repaying student debt and saving for emergencies. The law also provides greater flexibility and choice to smaller employers that want to offer a retirement plan.

As a leading retirement and benefits provider, Fidelity commits to improving people's financial lives, and has already taken steps to address top challenges for retirement savings. This overview spotlights some of the law's key changes for workplace plans and how they may affect participants and benefits offerings.



Views on retirement are changing and savings options are finally catching up

As the workforce rapidly evolves, perspectives on work and retirement change too.

For many employees, saving for retirement is an important but challenging goal among their other financial priorities, like paying bills, repaying debt, or saving for their children's education. At the same time, employees are working and living longer, and therefore need to save for longer retirements.

The new law recognizes that the United States' retirement system needs to evolve to meet a different set of financial challenges, and employers continue to play a critical role in their employees' retirement security.

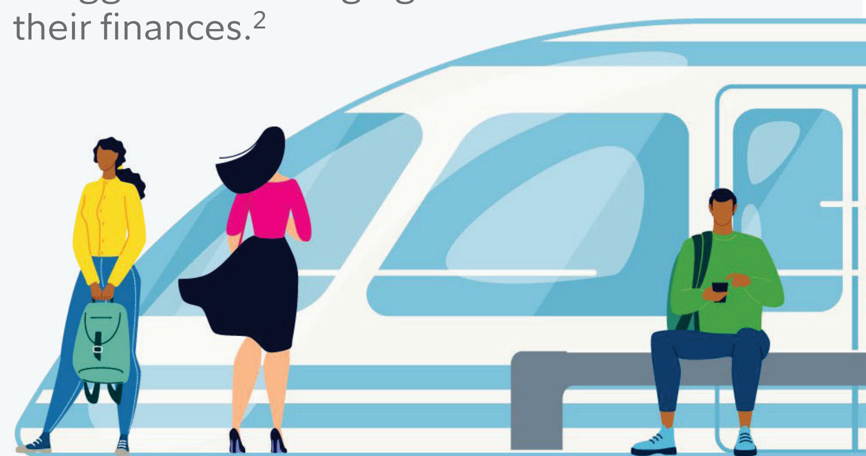
The new law recognizes that the workforce is evolving and **gives employers the flexibility they need** to offer benefits that **meet employees where they are**.

While both enrollment and contribution rates in workplace retirement plans continue to rise, many US workers still struggle to save enough for retirement, among other financial priorities.

Although Fidelity recommends to consider saving **at least 15% of pre-tax income annually** for retirement,[1] this goal may feel aspirational for people focused on building a financial foundation.

2 out of 3

US adults lack basic financial literacy skills, which may contribute to why many Americans struggle with managing their finances.[2]



[1] The 15% recommendation includes total contributions from both the employee and employer.

[2] The State of U. Financial Capability Study, FINRA. June 2019, and US National Strategy for Financial Literacy 2020 US Financial Literacy and Education Commission.

SECURE Act 2.0 removes major obstacles to retirement savings

SECURE 2.0 includes 92 total provisions spanning DC and DB plans, and IRAs.

From modernizing required minimum distribution **(RMD) rules**, **increasing the "catch-up" contribution limit** for pre-retirees, to allowing participants to **self-certify hardship withdrawals**, the **law makes common sense changes to the retirement system**.

It also **seeks to expand access to workplace plans** by incentivizing smaller employers to adopt a workplace retirement plan including pooled employer plans (PEPs).

Fidelity believes that allowing plan sponsors flexibility to address their workforce's specific financial challenges will **help more employees get "on track" with financial wellness and long-term retirement goals**

In this article, we spotlight key changes that may provide plan sponsors with the flexibility they need to **integrate new workplace benefits that may help employees more effectively save for retirement**, while continuing to meet their financial obligations and other goals. Specifically, we highlight provisions to:

- Make it easier to save for retirement while paying **student loan debt**
- Encourage saving for **short-term expenses** in addition to retirement
- **Streamline** the retirement savings process **when participants change employers**

Pay off student debt or save for retirement? Now your employees don't have to choose.

What changed?

The student debt retirement benefit will provide plan sponsors the opportunity to match employees' student loan payments as a traditional retirement plan contribution.

This change becomes effective in 2024, though plan sponsors are not required to offer this plan feature.

As one of the first employers to offer a student debt benefit to employees, Fidelity believes that addressing student debt pressures in the workplace is a powerful mechanism to support employees' financial wellness, retirement security, and overall well-being.

In addition to providing new options for workplace student debt benefits, the law also ***enhances 529 accounts*** *by authorizing tax and penalty-free* ***rollovers from 529s to Roth IRAs*** *(under certain conditions) beginning in 2024.*

HERE'S HOW IT WORKS

	Scenario 1	Scenario 2
	Employee is **unable to save** while paying student debt	Employee is **struggling to save enough** to earn the full employer match
Employee Deferrals	$0	$1,000
Student Debt Payments	$2,500	$2,000
Outcome	Earns match from student debt payments	Earns partial match from deferrals; balance of match earned from student debt payments
Total Employer Match Earned	$2,500	$2,500

** Examples are for illustrative purposed and may vary based on plan design. These two scenarios assume a dollar-for-dollar match up to 5%, an employee salary of $50,0000, and a maximum employer match of $2,500 ($50k * 5%).*

With SECURE 2.0, employees can earn an employer match while chipping away at their student debt

How could this help my employees?

Tens of millions of American workers struggle to pay student debt, a financial and emotional burden that often gets in the way of other goals and milestone life events like saving for retirement, buying a home, or having a child.

Improve retirement savings for participants with student debt

3 in 10 employees miss out

3 in 10 eligible employees are not contributing to their retirement plan[3]

Most Americans impacted

84% of Americans with student debt say it impacts their ability to save for retirement[4]

4 out of 5 employees with student debt think of it as a "life sentence"[8]

Increase equity among all groups of participants

The burden of student debt disproportionally impacts women, Black, and Latino/a employees.[5] These groups report that student debt contributes to delaying milestone life events, as well as difficulties saving for short-term and retirement goals.[6]

Improve participants' financial wellness and overall well-being

Student debt is a major cause of stress among employees and negatively affects emotional well-being.[7]

NEXT STEPS

Learn more about how Fidelity is already helping employers bring relief to their employees with student debt.

For existing clients, contact your Fidelity representative.

3 US Bureau of Labor Statistics, Retirement benefits: Access, participation, and take-up rates, 2018 Employee Benefits Survey.
4 TIAA-MIT Age Lab Research, 2019.
5 Brookings Institution, "Examining the Black-white Wealth Gap," 2020.
6 American Association of University Women, "Deeper in Debt: Women and Student Loans," 2020.
7 Fidelity internal analysis of 1,513 workplace participants surveyed September 8–17, 2022.
8 Based on online survey of 2,000 graduate and undergraduate degree holders by OnePoll on behalf of Splash Financial, October 2019.

Short on short-term savings? Introducing pathways to support emergency savings in the workplace.

What changed?

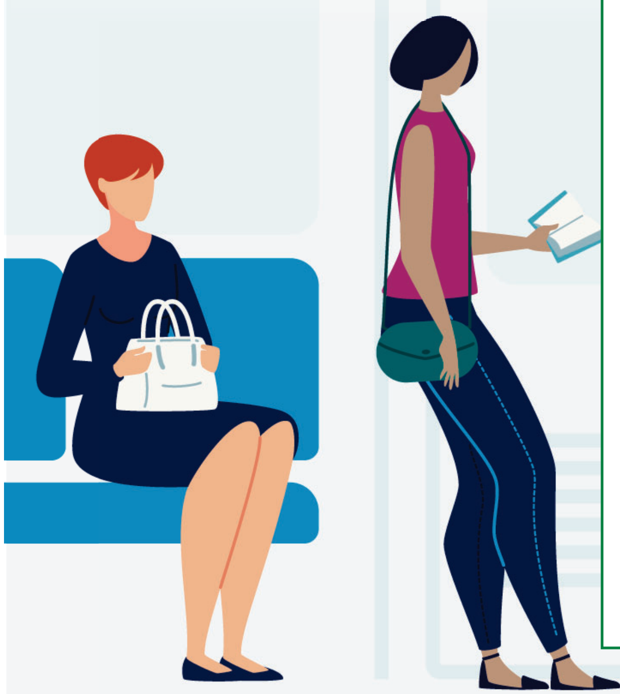
For decades, employers have provided support for retirement savings. But now **employees are looking to their employer for help with saving for short-term needs,** too**.** Without emergency savings at the ready, employees may look to their retirement plan as their only source of available savings when covering emergency costs.

The law allows plan sponsors to address employees' short-term savings needs by **offering emergency savings accounts linked to a defined contribution (DC) retirement plan**, beginning in 2024.

9 Fidelity Investments Financial Wellness Money Check-up responses collected September 2021–September 2022.

Fidelity believes employers can play a key role in helping their employees accumulate short-term savings and better prepare for unexpected financial events.

Less than half of workplace participants have 3–6 months' worth of essential expenses saved for unexpected expenses.[9]



In addition to authorizing new options for workplace emergency savings solutions, the new law also authorizes several new justifications for which participants may take penalty-free distributions, including those who are permanently or terminally ill, work as a private firefighter, or are a victim of domestic violence.

How could this help employees?

Allowing plan sponsors to create an emergency savings account associated with a retirement plan (in or outside of the plan) can help participants incrementally and consistently save for emergencies. Enabling participants to save for short-term expenses helps them become more prepared for unexpected costs, while ensuring their retirement savings are not penalized when withdrawn.

Boost employees' financial wellness

Employees who **have access to short-term savings** when they need it are…[9]

- more financially confident,
- have higher financial wellness scores
- more likely to be "on track" for retirement

Reduce plan leakage

Participants taking early withdrawals (hardship or loan) **average less than $3,000 per withdrawal**[10]

Participants taking frequent early withdrawals average **1.5 withdrawals** annually.[10]

Reduce participants' stress

Stress is high: More than half of workplace participants

feel "overwhelmed" or "completely overwhelmed" by their lack of short-term savings[9]

NEXT STEPS

Learn more about how Fidelity is already helping employees save for short-term financial goals.

9 Fidelity Investments Financial Wellness Money Check-up responses collected September 2021–September 2022.

10 Fidelity's recordkept data as of September 30, 2022.

Frustrated by friction when employees switch retirement plans? Introducing automatic portability.

What changed?

Every year, millions of U.S. workers are faced with manually moving their retirement account to a new employer's plan. In the process, many employees (with vested balances less than $5,000) choose to cash out their account, which contributes to plan leakage and disrupts retirement savings goals.

The new law enables retirement plan providers to offer plan sponsors automatic portability or "auto-portability" services. The service would **automatically transfer an employee's retirement account** to their new employer's plan (unless the participant elects otherwise for vested accounts with less than $7,000*).

For plan sponsors, automatic portability services seek to **reduce the costs and burden of terminated participants** and can **help participants preserve savings and achieve financial wellness.**

As a retirement leader, Fidelity believes **auto-portability is a critical component** to help under-served and under-saved employees achieve financial wellness and longer-term retirement security.

The law also **increases the threshold** under which plan sponsors may **cash out a participant ("mandatory cash out")** from $5,000 to $7,000.*

* The maximum threshold increases to $7,000 for distributions after December 31, 2023.

How could this help my employees?

Each year, nearly $100 billion leaves the U.S. retirement system as participants with lower balances “cash out” their retirement account when changing jobs.[11]

As employees continue to change jobs more frequently throughout their careers, it’s important that workplace retirement plans become more portable.

Preserve retirement assets

55% of lower-balance terminations result in a “cash out,” instead of rolling the savings into an IRA or new employer’s retirement plan.[12] With auto-portability services and the creation of Portability Services Network, over $1.5 trillion in savings could be preserved over the next 40 years.[11]

Improve financial equity among all groups

While the adverse impacts of cashing out affect employees of all groups, women, Black and Latino/a employees, lower-income employees, and young employees are affected most.[13]

Black participants are **twice** and Latino/a participants are **1.5 times more likely** than Asian or White participants to have a 401(k) balance below $5,000 when they leave their job[13]

Participants under 35 years old are responsible for **55% of cash outs**[14]

Improve employee satisfaction

Rolling workplace retirement assets into a new employer’s plan can be complex and time-consuming. Auto-portability services **reduces friction for both employers and employees.**

NEXT STEPS

Learn more about Fidelity’s partnership to bring auto-portability services to your plan.

11 “The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage,” EBRI, 2019 (based on 2015 data).
12 Fast leakage rates are composite results from Fidelity, Vanguard, & Aon Hewitt reports for the year in which a participant’s status changes from active to inactive. Number of participants cashing out equals leakage rate times EBRI market segment by account balance as a percentage of all accounts. Fidelity analysis based on 1.1 million mandatory distributions processed in 2021.
13 Fidelity’s recordkept data as of June 30, 2022, for 28,489 terminated participants for whom race/ethnicity tags were available.
14 Fidelity recordkept data as of December 31, 2021.

Digging into the details — the modernization of savings, distribution & disclosure rules

Allows employees to self-certify hardship withdrawals	Plan administrators can rely on employees to self-certify (without providing additional documentation) that the distribution will cover costs related to a safe harbor hardship reason, such as home repairs, funeral or medical expenses.	• Applies to 401(k), 403(b), and governmental 457(b) plans. • Effective 2023
Updates required minimum distribution (RMD) rules	• Incrementally **raises the age** at which participants must begin taking RMDs from 72 to 73 beginning in 2023, then to age 75 beginning in 2033. • Allows **spousal beneficiaries** of deceased participants (or IRA owners) to follow RMD rules based on their own age, rather than the deceased account holder. Effective in 2024. • **Excludes Roth money in workplace plans** from being subject to the RMD requirements, beginning in 2024. • **Reduces the RMD penalty** from 50% of the distribution amount to 25%, and further lowers to 10% if the participant corrects the distribution in a timely manner. • **Permits participants who partially annuitize** to potentially offset RMDs required from the non-annuitized portion of their account balance with payments from the annuity. • **Removes RMD barriers for life annuities** by allowing guarantees typically desired by participants to be included in annuity contracts.	• RMD provisions apply to IRAs, 401(k)s, 403(b)s, and 457(b)s • Effective 2023, unless otherwise noted
Increases the "catch up" contribution limit & requires certain catch-up contributions to be Roth	Increases the age 50 catch-up contribution limit for participants aged 60-63 & requires age 50 catch-up contributions to be Roth (for employees who earned more than $145,000 in the prior year).	• Applies to 401(k)s, 403(b)s, and governmental 457(b)s • Effective 2024
Eliminates requirement to share disclosures with eligible unenrolled participants	Plan sponsors will not be required to send plan disclosures to employees who are eligible to participate in the retirement plan, but have chosen not to. However, plan sponsors must still provide an annual notice of eligibility to unenrolled participants.	• Effective 2023

For more information on the provisions impacting employer-sponsored plans, visit this page

Disclosures

1 The 15% recommendation includes total contributions from both the employee and employer.

2 The State of US Financial Capability Study, FINRA. June 2019, and US National Strategy for Financial Literacy 2020 US Financial Literacy and Education Commission.

3 US Bureau of Labor Statistics, Retirement benefits: Access, participation, and take-up rates, 2018 Employee Benefits Survey.

4 TIAA-MIT Age Lab Research, 2019.

5 Brookings Institution, "Examining the Black-white Wealth Gap," 2020.

6 American Association of University Women, "Deeper in Debt: Women and Student Loans," 2020.

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For plan sponsor and investment professional use.

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