AMERICAN RETIREMENT ASSOCIATION

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Working for America's Retirement

Starter 401(k) Plan Fix Needed

The American Retirement Association (ARA) is a non-profit education and advocacy organization for retirement plan and benefits professionals. Our mission is to advocate for policies that give every working American the ability to have a comfortable retirement. The ARA applauds Congress for including the Starter 401(k) plan – a brand new super simple retirement plan for American workers – in the SECURE 2.0 Act that was enacted into law in December 2022. However, the ARA has identified a key legislative language fix needed to achieve the intended Starter 401(k) plan policy objectives.

What is the Starter 401(k) plan?

Employers can adopt the Starter 401(k) plan beginning in 2024. The Starter 401(k) plan is a new wage deferral-only simple safe harbor 401(k) plan. The plan allows employees to save up to $6,000 per year (with a $1,000 catch-up contribution) in a tax-preferred retirement account but does not involve the administrative burden or expense of a traditional 401(k) plan. For example, the Starter 401(k) plan does not require any employer contributions or complicated testing.

Why is the Starter 401(k) plan needed?

Far too many Americans still lack access to a retirement plan at work and thus lack an equitable opportunity to achieve a comfortable retirement. This retirement plan coverage gap, and the corresponding lack of retirement savings, is particularly pronounced in the Black and Hispanic communities. Expanding retirement plan coverage with automatic enrollment is the key to addressing racial inequities in retirement savings.

Data shows that when moderate income workers are auto enrolled in a workplace retirement plan there is no racial disparity in retirement savings participation with Black, Hispanic, and White Americans all at about 80 percent. The ARA estimates that the Starter 401(k) plan – coupled with the new employer retirement startup tax credits enables 19 million additional American workers to gain access to and participate in the workplace-based retirement system. This leads to a 22 percent increase in Black and Hispanic American access to these retirement plans.[1]

Why is the Starter 401(k) plan fix needed?

The Starter 401(k) contribution limit should equal the IRA contribution limit. The Senate Finance Committee description of the Starter 401(k) proposal reflects the intent for the Starter 401(k) contribution limits to be the same as the IRA contribution limits. Hence, the Starter 401(k) contribution limit included in the SECURE 2.0 Act is $6,000 (with a $1,000 catch-up contribution) which is equal to the 2022 IRA contribution limit. Due to the delayed effective date of Starter 401(k) until 2024, combined with the IRA contribution limit increasing to $6,500 in 2023 in a separate part of the Tax Code, the Starter 401(k) mistakenly will have a lower contribution limit, which was not intended. This minor error puts the IRA product at an advantage over the Starter 401(k). ARA recommends that the Starter 401(k) contribution limit be increased to match the 2024 IRA contribution limit and then indexed to inflation going forward.

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[1]See American Retirement Association Report: Closing the Retirement Savings Gap – found at https://araadvocacy.org/wp-content/uploads/2022/11/110922-ARA-Secure20-ClosingGap-v7.pdf