



Expanding Access and Participation in Workplace Retirement Savings Plans

The [Retirement Security Flexibility Act of 2021](#) (S. 2602) would expand access to and participation in workplace retirement savings plans by making it easier for small businesses to offer well-designed plans to their employees at low cost.

ISSUE

The most common tool Americans use to save for retirement is a plan offered through an employer. Only two-thirds of workers in private businesses, however, have access to a workplace retirement savings plan, and among those, only three-quarters participate, meaning that only [half](#) of private-sector workers currently participate in an employer-sponsored retirement plan. This is a major concern, as a [significant](#) share of households have inadequate funds to maintain their standard of living in retirement. Meanwhile, nearly [60%](#) of small- and medium-sized businesses find that the financial and administrative obligations associated with setting up a plan for their workers deter them from doing so. Among these challenges are: (1) complying with complex IRS nondiscrimination and top-heavy [testing requirements](#), in which plan sponsors must demonstrate that the benefits of the plan are equitably shared amongst their workforce; and (2) financing the employer-matching or non-elective contributions that existing safe harbors to satisfy (1) currently require.

SOLUTION

To expand access to workplace retirement programs for employees of small businesses, as well as incentivize employers with plans to incorporate automatic features that have proven to dramatically increase take-up and savings rates, a reformed safe harbor would absolve certain employers from making contributions in exchange for adopting industry best practices when it comes to automatic features and accepting somewhat lower contribution limits for their plan.

POLICY

This bill would introduce flexibilities for some employers to offer retirement plans for employees without the burden of testing requirements or significant employer contribution costs by reforming the automatic enrollment safe harbor. Specifically, it would allow small business owners to simply determine an affordable level of employer contributions and then accept annual contribution limits commensurate with that decision. Such an approach would retain the incentive for employers to help fund their workers' accounts but also acknowledge that some are currently unable to do so. Under this framework, an automatic enrollment safe harbor plan:

- With *no employer contribution* could qualify for the safe harbor if the plan limits deferrals to 40% of the 402(g) limit (currently \$20,500).
- With *a 1% employer contribution (or 1.5% employer match)* could qualify for the safe harbor if the plan limits deferrals to 60% of the 402(g) limit.
- With *a 2% employer contribution (or 2.5% employer match)* could qualify for the safe harbor if the plan limits deferrals to 80% of the 402(g) limit.
- With *a 3% employer contribution (or 3.5% employer match)* could qualify for the safe harbor with access to the full 402(g) limit (this is current law).

Additionally, the legislation provides more flexibility for all employers utilizing the safe harbor to initiate automatic enrollment for their employees at up to 8% (current law limits to 3%). While employees can opt out of automatic enrollment at any time, employers who take advantage of the safe harbor would also need to employ auto-reenrollment every three years to continuously remind those opting out of the opportunity for them to save for retirement.



bpcaction.org | 202-204-2400
1225 Eye St NW, Suite 900 | Washington, DC 20005