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Secure 2.0 Act's Emergency Saving Accounts (PLESA):

The Most Significant Development in 401(k)s Since Auto Features?

Introduced through the Secure 2.0 Act of 2022, Pension-Linked Emergency Savings Accounts (PLESA) are a significant development to improve the lack of emergency savings among our workforce. While savings accounts have always been available, the new law allows them to be added directly to employer-sponsored retirement plans.

PLESA's integration of emergency savings into 401(k)s marks a significant step forward in addressing the financial security concerns of American workers by providing a streamlined approach to both short-term and long-term savings within existing employer-sponsored retirement plans. PCI believes that the PLESA provision is a positive step toward helping Americans become more financially secure.

Background on the Problem

Too many Americans are experiencing financial insecurity. And, this isn't breaking news. In fact, it's been a problem for far too long. So long that we may be numb to the onslaught of media attention and research that continues to build the case that American workers are behind pace.

When workers experience financial insecurity, we know that it tends to manifest itself in an ever-present cloud of stress and worry.

This crisis is rooted in a lack of savings; specifically two types: *1) a lack of emergency (i.e. short-term) savings, or the inability to withstand financial shocks, and 2) a lack of retirement (i.e. long-term) savings, or a sense of hopelessness for a secure financial future.*

To improve the overall financial security of the American workforce, we need to be equipped to address both "savings" barriers. Through the PLESA provision's integration into 401(k)s, we can now do just that.

We know financial insecurity greatly impacts all aspects of life.

#1 Money is the #1 source of stress[1]

#2 Financial problems are #2 cause of divorce[2]

11x more likely to experience sleepless nights[3]

56% could not cover an unexpected $1,000 expense[4]

See "References" section of this summary on page 4 for complete source citations.

Introduction to Secure Act 2.0's Pension-Linked Emergency Savings Accounts

Through SECURE Act 2.0's Pension-Linked Emergency Savings Account (PLESA) provision, the 401(k) now has the opportunity to address both short-term financial needs and long-term financial needs.

PLESAs are sidecar emergency savings accounts that are tied directly (i.e. linked) to participant retirement accounts. PLESAs are available for qualified defined contribution plans, including 401(k), 403(b), and 457(b) plans.

If a plan sponsor chooses to adopt PLESA, non-highly compensated employees can contribute up to $2,500 to this account. All contributions are treated as Roth. Once the contribution limit has been reached, excess contributions are redirected into a Roth retirement account.

Participants must be able to withdraw all or part of their account balance at least monthly. Participants may be charged reasonable administrative fees for these accounts. However, the plan cannot charge any withdrawal fees for a participant's first four withdrawals in any plan year.

Secure 2.0 allows (but doesn't require) sponsors to automatically enroll eligible employees in PLESAs at a rate of up to 3%. Participants can elect a different rate or opt-out altogether. Additionally, automatic enrollment features in PLESAs can interact with automatic contribution arrangements for retirement.

We believe PLESA gives employers a significant opportunity to positively impact the financial security of their workforce. However, to have the most impact, it will take wide-spread adoption of automatic enrollment.

Assistant Secretary for U.S. Department of Labor Employee Benefits Security Administration (EBSA) Lisa Gomez states,

"These savings accounts will enhance retirement security by reducing retirement plan leakage and, at the same time, offering additional flexibility to workers…" [5]

Fiduciary FAQs

1. Who is eligible for PLESA?

- In short, eligibility is based on your retirement plan eligibility. If a participant is eligible for the plan, they are eligible for PLESA.
- If you wanted to make the PLESA eligibility more generous than the plan's eligibility, we need more guidance from the DOL and IRS.

2. Is there a minimum contribution limit?

- All contributions to PLESA must be employee contributions – contributions are matched at the same rate as retirement, but match dollars can't be sent to the PLESA account. They must be sent to the retirement account.
- You cannot set a minimum contribution or balance requirement.

3. Are participants going to be charged?

- Participants may be charged reasonable administrative fees for these accounts. However, the plan cannot charge any withdrawal fees for a participant's first four withdrawals in any plan year.

4. What investments will PLESA be invested into?

- The act restricts the types of investments that can be used with PLESAs. It should be liquid, cash-type investments.
- Plans will need to ensure that the investment product doesn't impose investment or withdrawal restrictions that could conflict with other PLESA features, including the ability to make monthly withdrawals and the prohibition on minimum balances.

5. Does this require a plan amendment?

- Yes. The act requires the plan document to include any PLESA feature.
- The plan amendment deadline for Secure 2.0's provisions is the end of the first plan year beginning on or after Jan. 1, 2025 (2027 for governmental and collectively bargained plans).

The latest information on Secure 2.0 Act and PLESAs can be found here:
"FAQs: Pension-Linked Emergency Savings Accounts." U.S. Department of Labor Employee Benefits Security Administration. Accessed 22 March 2024.
"SECURE 2.0 Act of 2022." Senate Committee on Finance. Accessed 22 March 2024.
See "References" section of this summary on page 4 for complete source citations.

The Benefits of Integrating Emergency Savings into 401(k) Plans

Secure 2.0's PLESA provision presents a promising solution by aligning emergency savings with existing payroll deductions through retirement contributions. This innovative approach not only streamlines the saving process but also incentivizes individuals to prioritize financial resilience, ultimately helping them achieve greater financial security.

Let's briefly highlight some of the advantages of emergency savings within 401(k)s and why this new provision just makes sense.

Benefit #1: 401(k) is Popular and Well-Established as a Savings Platform

With millions of Americans already utilizing 401(k) accounts as a primary vehicle for retirement savings, integrating emergency savings options directly into these plans expedites the saving process and leverages existing participation and contribution mechanisms. By capitalizing on the familiarity and widespread adoption of 401(k) plans, the integration of emergency savings represents a potentially seamless and effective way to make a difference in savings among employees.

Benefit #2: Existing Infrastructure Enables Built-In Savings Resilience

The existing infrastructure of 401(k) plans provides a robust foundation for integrating emergency savings. With established systems for payroll, recordkeeping, investments, and withdrawals already in place, 401(k) plans offer a proven framework that can accommodate the inclusion of emergency savings features.

Benefit #3: Payroll Deductions: Out of Sight, Out of Mind

The integration of emergency savings into 401(k) plans leverages the psychological principle of *"out of sight, out of mind"* associated with payroll deductions to enhance savings behavior. We know it works. By automatically deducting contributions from employees' paychecks and directing them toward both retirement and emergency savings accounts within the same plan, individuals are less likely to perceive the reduction in income. This helps emergency savings accumulate consistently over time, without requiring conscious or strenuous effort or decision-making from participants.

Benefit #4: Automatic Enrollment and Match Opportunity

Automatic enrollment and matching opportunities within 401(k) plans may amplify the effectiveness of integrating emergency savings. Employers can elect to automatically enroll participants into this account at rates up to 3%. Once your employee reaches $2,500 in the emergency savings account, any excess contributions can be directed into the retirement plan. By automatically enrolling participants into both retirement and emergency savings accounts, employers can assist with consistent contributions and reduce plan leakage.

Matching contributions incentivizes employees to prioritize emergency savings, optimizing their contributions and accelerating savings growth. When both are utilized, this dual approach maximizes the potential for participants to build substantial emergency funds, bolstering their financial security in the long run.

Benefit #5: Fiduciary Oversight and ERISA Compliance in 401(k) Plans

Fiduciary oversight and adherence to ERISA standards reinforce the integrity and reliability of integrating emergency savings into 401(k) plans. As watchdogs of the plan, fiduciaries can help ensure compliance with government regulations and uphold higher standards of conduct, safeguarding participants' interests.

Hurdles of Adoption

This will take time

Although allowed through the provision, it's important to note that the platforms to add these accounts have not been developed yet. There is notable resistance from major recordkeepers to adding these accounts, due to administrative burden and increased costs. Despite Department of Labor (DOL) and Internal Revenue Service (IRS) guidance, there are still unanswered questions about implementation, causing some legal practitioners to be leery of unintentionally making a mistake. More regulatory guidance would be helpful to alleviate their concerns.

- **PLESAs will have to be bought, it won't be sold. This is not a revenue-generator for the industry. It's an expense multiplier.**
- **Additional guidance from DOL and IRS would be helpful.**
- **The mechanics of linking retirement and PLESA auto-enroll still to be worked out.**
- **Automatic enrollment is needed for widespread success.**
- **Like most innovations, this will take time to catch on.**

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Considering adopting emergency savings into your plan?

Pension Consultants, Inc. has a dedicated team of retirement plan experts that would be happy to help answer any of your questions about building financial security at your organization.

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3) *"Salary Finance's 2nd Annual Report, Salary Finance Inc, 2020."*
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5) *"US Department Of Labor Issues Guidance On New Emergency Savings Accounts." U.S. Department of Labor | Employee Benefits Security Administrations. 17 Jan 2024.*
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