(HOW) DOES THAT "BIG BEAUTIFUL BILL" IMPACT RETIREMENT SAVINGS?

Intense last-minute negotiations allowed both houses of Congress to pass the so-called One Big Beautiful Bill Act (the Bill) prior to their self-imposed July 4 deadline, and President Donald Trump has now signed that legislation into law. While there's a lot in the legislation, noteworthy for retirement plan sponsors is that the Bill does not include any negative changes to the employer-sponsored retirement system, specifically any revenue-raising provisions such as additional retirement plan contribution limits, imposing Roth requirements on employee contributions, nor limiting tax preferences for employer contributions. There are, however, some changes related to workplace savings of which benefits professionals should be aware of.

HERE'S WHAT YOU REALLY NEED TO KNOW

As it relates to retirement savings, the Bill provides for:

- A new type of individual retirement account (IRA) targeted to children (also called "Trump Accounts");
- Expanded scope of eligible expenses to be paid from 529 college savings plans;
- Increased contributions to Achieving a Better Life Experience (ABLE) accounts; and
- Removal of exclusion for employer payments of student loans.

While the House version of the bill contained some provisions related to expanding health savings accounts (HSAs), those were not included in the final version of the Bill.[i]

LET'S DIVE IN...

You may still be feeling SECURE 2.0 fatigue and for good reason. While retirement was not the focus of this Bill, there are a number of provisions that could be welcome news for retirement savings.

Trump Accounts

Beginning in 2026, children under the age of 18 qualify for what is now labeled a “Trump Account.” Contributions (up to $5,000 annually, adjusted for inflation) can be made to these accounts from parents, relatives, and other taxable entities as well as non-profit and government entities. Distributions are not allowed from these accounts prior to the calendar year in which the beneficiary attains age 18; thereafter, the account is treated and taxed the same way as a traditional IRA. Employers may also contribute up to $2,500 if certain program design requirements are met, and such contributions will be subject to the annual limit. Contributions are not permitted after the calendar year in which the beneficiary attains age 17.

Trump (MAGA) Accounts Contribution Pilot Program

The Bill creates a pilot program (effective upon enactment, or now) under which the U.S. Treasury will pay a one-time credit of $1,000 to the Trump Account of U.S. citizens born between 2025 and 2029.

Exclusion for Employer Payments of Student Loans

The Bill makes permanent the provision from the Tax Cuts and Jobs Act (TCJA) allowing employers to make student loan reimbursement payments (previous law required that the payment be made before January 1, 2026) and indexes the overall educational assistance program exclusion (currently $5,250) for inflation. Note that this is different from the provision in SECURE 2.0 that allows for student loan matching provisions for qualified student loan payments (QSLPs) under Section 110.

Additional Expenses Considered Qualified Higher Education Expenses for 529 Accounts

The Bill allows tax-exempt distributions from 529 savings plans to be used for educational expenses in connection with enrollment or attendance at an elementary or secondary school, including curriculum (and curricular materials), instructional materials (e.g., books), online education, certain tutoring classes, fees for certain tests, and certain educational therapies. It now also treats certain post-secondary credentialing expenses as qualified higher education expenses eligible for distributions from 529 plans.

The Bill also raises the maximum allowable amount of tuition expenses that can be treated as qualified higher education expenses from $10,000 to $20,000. This applies to tuition paid for enrollment or attendance at elementary or secondary schools, whether public, private, or religious.

Extension and Enhancement of Increased Limitation on Contributions to ABLE Accounts

The additional contribution limit to ABLE accounts currently available to individuals with a disability who are employed is equal to the lesser of (1) the applicable federal poverty level for a one-person household in the prior year or (2) the beneficiary's compensation for the year. This has now been made permanent, as well as providing an additional year of inflation adjustment for the base amount of the limit. The Bill also makes permanent a provision of TCJA that made the Saver's Credit available to designated beneficiaries who make qualified contributions to their ABLE accounts, and increases the credit amount of $2,100, as well as making permanent a provision of TCJA that allowed rollovers of amounts in 529 plans to certain ABLE accounts.

Excessive Employee Remuneration from Controlled Group Members and Allocation of Deduction

Internal Revenue Code section 162(m) limits the deduction for remuneration of more than $1 million for certain employees. The legislation now applies entity aggregation rules for purposes of the deduction limitation and the allocation of the deduction. This expands the rules so that all companies within a controlled group must be treated as a single unit when determining whether a "specified covered employee" has compensation exceeding the $1 million deduction limit. More specifically, companies in a controlled group must now clarify each entity's share of the section 162(m) deduction, preventing one company from taking the full deduction while others pay. However, Treasury is expected to issue regulations on the allocation method—including the standard for "pro-rata" share by compensation.

Action Items for Plan Sponsors

While the legislation doesn't specifically enhance retirement savings or provide the kind of new plan design options that SECURE 2.0 did, there are some additional savings opportunities – and it can be a good and timely opportunity to remind workers about the options they do have. Plan sponsors may want to consider the following action items where applicable:

- Communicate with employees about the expansion of the student loan reimbursement policy and expanded allowable expenses from 529 college savings plans.

- Consider the implications for the organization(s) given the controlled group aggregation changes.

- Educate the benefits team to ensure they understand the implications of the changes.

[i] There were, however, some expansions for HSA access. Under current law, an individual may only contribute to an HSA if their sole health insurance coverage is through a high-deductible health plan (HDHP). The Bill would treat bronze-level and catastrophic plans purchased in the individual marketplace under the Affordable Care Act (ACA) as HDHPs for purposes of making HSA contributions. It would also allow individuals participating in direct primary care arrangements to contribute to an HSA, subject to some restrictions. During the pandemic, HDHPs were allowed to provide for telehealth and similar remote-care services without a deductible – the Bill makes this rule permanent.

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