



A look at *Secure Choice*: Illinois's state-mandated retirement program

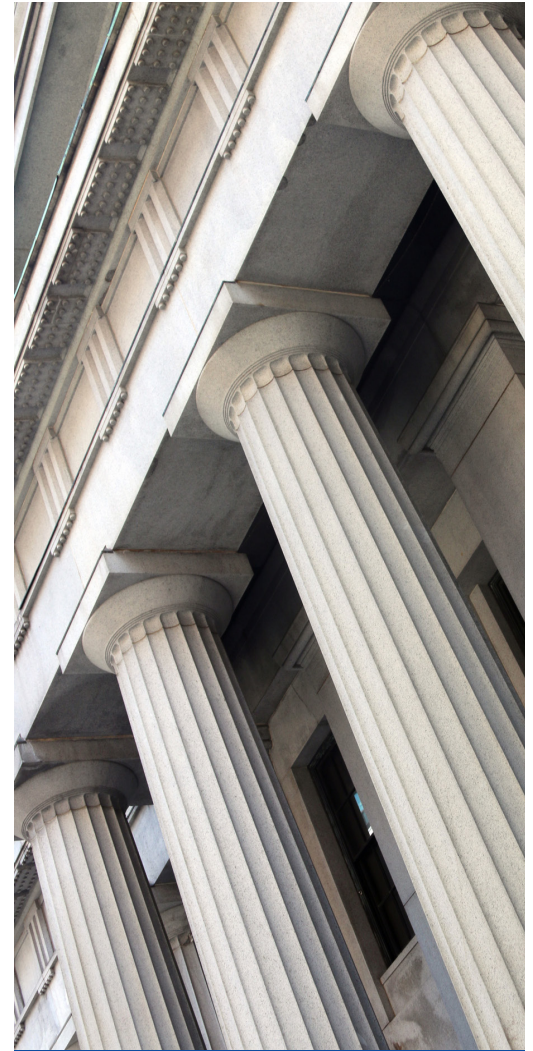
Thirty-three percent of private-sector employees don't have access to employer-provided retirement plans.¹ To broaden access, many states have established mandatory retirement plans. In Illinois, the Secure Choice Act became law in 2015, establishing the Illinois Secure Choice Retirement Savings Program (Secure Choice). By November 1, 2023, Secure Choice will require businesses with five or more employees to participate in the Secure Choice program, unless they offer a retirement plan.

A brief overview

Secure Choice is a Roth IRA. Key details are as follows:

- ✓ **Employers affected**—Mandatory for private employers in operation for at least two years, with five or more W-2 employees, and not offering a retirement plan.
- ✓ **Type of account**—Roth IRA
- ✓ **Automatic enrollment**—Yes
- ✓ **Auto-escalation**—Yes, in 1% increments, up to 10%
- ✓ **Default contribution rate**—5%
- ✓ **Investment options**—Target-date funds (TDFs), capital preservation funds, growth funds, and conservative funds; default option is a TDF
- ✓ **Administrative fees**—None for employers; employee fees capped at 0.75% annually
- ✓ **Fees for noncompliance**—\$250 per employee for failure to enroll in the first calendar year, and \$500 per employee for subsequent calendar years

¹ "67 percent of private industry workers had access to retirement plans in 2020," The Economics Daily, 3/1/21.



Effective November 1, 2022

Secure Choice will apply to all businesses in operation for at least two years with fifteen or more employees. It's already mandatory for larger employers.

How a Secure Choice plan is structured

Secure Choice is a Roth IRA with automatic enrollment. Deductions are taken from eligible employees’ pay on an after-tax basis and deposited in a Roth IRA on their behalf. The initial default contribution rate is 5%, with an auto-escalation feature of 1% per year, up to a maximum contribution rate of 10%.

Eligible employees may select a different contribution rate, refuse the auto-escalation rate, or opt out of the program altogether.

Employer requirements

Secure Choice is mandatory for all private employers in Illinois that have been operating for at least two years, have five or more full-time employees over the age of 18 (with at least one employee working in the state), and don’t already sponsor a retirement plan for their business.

Employers must register for participation by a required date, send employee data to the program’s administrator, enroll all employees, and adjust contributions each year as required by auto-increase rules.

Comparing Secure Choice to a 401(k)

Employers subject to Secure Choice have the option of establishing a plan that might better meet company and employee goals and objectives, particularly if those objectives include maximizing retirement savings. Key points of comparison include:

| | Secure Choice | 401(k) |
|--|--|--|
| Employee contributions and annual limits | <ul style="list-style-type: none">• Roth only• \$6,000• \$7,000 if age 50 or older | <ul style="list-style-type: none">• \$20,500 (pretax or Roth, 2022)• \$27,500 if age 50 or older (2022) |
| Tax status of employee contributions | After tax | Pretax and after tax |
| Automatic enrollment/ auto-escalate | Yes | Yes |
| Employer contributions | Not allowed | <ul style="list-style-type: none">• Matching and profit-sharing contributions• \$61,000 (2022 defined contribution annual addition limit) |
| Investment options | Limited to three individual funds, plus TDF | Broad offerings available |
| Administrative responsibilities | As required by state law | Subject to Employee Retirement Income Security Act of 1974 (ERISA) reporting, disclosure requirements, and fiduciary duties |

You can offer a better alternative

Secure Choice is raising awareness about the importance of offering a retirement plan. That’s a big positive. Yet, its one-size-fits-all approach and mandatory nature can lock businesses and employees into a retirement plan that’s not well tailored to their or their employees’ needs.



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John Hancock believes that state-mandated retirement programs, like Secure Choice, can be an effective door opener for financial professionals.

A 401(k) plan’s design flexibility, higher contribution limits, and virtually unlimited investment choices allow thoughtful advisors to develop retirement savings programs better aligned with client objectives and employee needs.