Financial Incentives for Employee Participation

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Employers who sponsor 401(k) and 403(b) plans without auto enrollment provisions have traditionally been challenged with increasing participation rates. Most employers were interested in different options to encourage more employees to affirmatively make elective deferral contributions into their retirement plans. Thanks to SECURE 2.0, for plan years beginning after December 29, 2022, employers that sponsor 401(k) or 403(b) plans may offer employees a “de minimis” financial incentive. One example of an incentive is a gift card if the cost of the incentive is paid by the employer and not paid from plan assets.

Prior to SECURE 2.0, the “contingent benefit rule” prohibited employers that sponsored 401(k)/403(b) plans from offering any direct or indirect benefits, including financial incentives, to employees that would be conditionally available based on an employee’s decision to participate in their employer-sponsored retirement plan. While this SECURE 2.0 provision did not specifically define “de minimis”, Notice 2024-02 clarified that a “de minimis” incentive cannot exceed $250 in value and can only be provided to employees that do not already have an election to defer in place.

The financial incentive can be provided in the form of installments that are contingent on the employee continuing to defer. For example, if a participant initially enrolls in the plan, they will receive $100 and if they are still enrolled in the plan after one year, they will receive another $150. The notice also states that the financial incentive is includable in an employee’s gross income and wages and is subject to withholding and reporting requirements for employment tax purposes, unless the incentive satisfies another exception under the Internal Revenue Code. Notice 2024-02 also clarifies that “de minimis” financial incentives may not be provided in the form of employer matching contributions and are not subject to the rules that apply to plan contributions, including the qualification and deductibility rules under Internal Revenue Code Sections 401(a) and 404(a).

Because these amounts could be considered part of a plan’s definition of compensation, we recommend that you discuss with your RMS Account Executive before starting an incentive program.

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