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Commco Comments

Timely Information and Updates for Employers and Retirement Plan Sponsors

SECURE Act - Impacts to Plan Sponsors

Passed in December 2019, the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 has wide-reaching impacts on retirement savings and estate planning for many Americans.

The SECURE Act is intended to broaden the effectiveness of individual retirement accounts and employer-sponsored retirement savings plans. It also expands access to tax-advantaged retirement savings accounts and, ultimately, aims to help more Americans save enough for a secure retirement.

All provisions take effect on or after January 1, 2020, unless otherwise noted. While there are more changes not covered here, the portions of the SECURE Act with greatest significance to employers who sponsor (or are considering establishing) a workplace retirement plan include:

- The tax credit that small businesses can take for starting a new retirement plan has increased. The previous credit amount was 50% of startup costs up to $1,000 (i.e., a maximum credit of $500). Under the new rule, $500 is now the minimum credit, and the maximum (still not to exceed 50% of plan startup costs) is the lesser of $5,000 or $250 multiplied by the number of non-highly compensated eligible employees. The credit applies for up to three years.

- An additional new tax credit of $500 is available for employers that launch a 401(k) or SIMPLE IRA plan with an eligible automatic enrollment feature, or add such a feature to an existing plan. The credit applies for three years.

- For plan years beginning on or after January 1, 2024, part-time employees age 21 and older who have worked at least 500 hours in each of three consecutive years generally must be allowed to participate in the salary deferral portion of employer-sponsored retirement plans. These long-term part-time (LTPT) employees may still be excluded from receiving employer match and profit sharing contributions, and may also be excluded from calculations for nondiscrimination testing purposes. The determination period for who is an LTPT employee begins January 1, 2021, and service prior to this date need not be considered. Employers were previously allowed to restrict all plan participation to employees who worked at least 1,000 hours per year.

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Under the SECURE Act, plans operating under a QACA may now automatically increase participant contributions until they reach what percentage of salary?

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- Employers now have easier access to join Multiple Employer Plans (MEP) regardless of industry, geographic location, or affiliation. Previously, groups of small businesses had to be affiliated somehow in order to form or join an MEP. The legislation also provides that the failure of one employer in an MEP to meet plan requirements will not cause others to fail, and that plan assets in the failed plan will be transferred to another. This rule is set to become effective for plan years beginning on or after January 1, 2021.
- Plans operating under a Qualified Automatic Contribution Arrangement (QACA) may now automatically increase participant contributions until they reach 15% of salary. The previous ceiling was 10%.
- The SECURE Act requires that defined contribution plans deliver a lifetime income disclosure to participants at least once every 12 months. This lifetime income disclosure would essentially show how much income the lump sum balance in the retirement account could generate. The methodology for calculating lifetime income is still being evaluated and it is likely that existing third-party vendors will begin generating these disclosures on behalf of their plan sponsor clients.

As is often the case with new legislation, guidance and clarification on many details are still in development, and we will continue to communicate updates as they are received. If you have any questions in the meantime regarding the SECURE Act and its effects on your plan, please contact your Commerce Company advisor or email newsletter@thecommco.com.

Sources: Broadridge Investor Communication Solutions, Inc. and Plan Sponsor Council of America.