Setting Every Community Up for Retirement Enhancement **(SECURE)** Act

In December 2019, the SECURE Act, which stands for "Setting Every Community Up for Retirement Enhancement," was signed into law. The Act significantly alters the retirement landscape for employers and retirement savers and is designed to help more Americans prepare to meet their income needs for a longer period of time in retirement. Whether you're actively saving for retirement, enjoying life in retirement or running a business, it's important to understand what the SECURE Act means for you. Highlighted below are key provisions impacting business owners and individual investors, as well as steps you can take now to prepare for these important changes.

SECURE ACT AT-A-GLANCE

Businesses and corporate retirement plans:

- Permits unrelated small businesses to band together to form one retirement plan.
- Increases the startup tax credit for small employer plans.
- Provides tax credits to small plans adding auto-enrollment.
- Increases the automatic safe harbor deferral maximum to 15%.
- Offers greater flexibility for timing plan adoptions/ amendments.
- Allows long-term, part-time workers to participate in defined ontribution plans.
- Offers greater flexibility in timing plan adoption and amendments.
- Enables consolidated Form 5500 reporting.

Individual investors and retirees:

- Repeals the maximum age limit for traditional IRA contributions.
- Increases the age limit to begin taking RMDs to 72.
- Enhances portability of in-plan lifetime income investments.
- Eliminates the stretch IRA option for non-spouse beneficiaries.
- Permits up to $5,000 in penalty-free retirement account withdrawals for qualified birth or adoption expenses.
- Allows parents to withdraw up to $10,000 from 529 plans to repay student loans.

WHAT DOES THE **SECURE ACT** MEAN FOR YOU?

FOR BUSINESS OWNERS AND RETIREMENT PLAN SPONSORS

- **Allows for open multiple employer plans (MEPs)** - The SECURE Act allows unrelated small employers to band together in "open" 401(k) multiple-employer plans (MEPs), also referred to as pooled employer plans (PEPs). This reduces the costs and administrative duties that each employer would otherwise bear alone. In addition, the Act also eliminates the "one-bad-apple" rule under which a violation by one employer participating in a MEP can trigger severe penalties for the compliant employers in the MEP.
- **Increases the start-up tax credit for small employer plans** - The Act increases the business tax credit for plan startup costs to make setting up retirement plans more affordable for small businesses. The tax credit increased from the current cap of $500 to up to $5,000 in certain circumstances.
- **Provides tax credits to small businesses offering auto-enrollment to their employees in 401(k) and SIMPLE IRA plans** - This provision incentivizes business owners to make enrolling and saving easier for employees by providing a $500 tax credit for three years for plans that add auto-enrollment. (Studies indicate that plans with auto-enrollment have participation rates exceeding 90%, compared with participation rates in the 50% range for plans in which workers must opt in.[1])
- **Increases the automatic safe harbor deferral maximum to 15% from 10%** - By raising the ceiling for automatic in-plan retirement saving, workers will be able to save even more.

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- **Offers greater flexibility in the timing of safe harbor plan amendments and adoptions –** The SECURE Act very generally permits employers to add a safe harbor feature to their existing 401(k) plans during the year; such additions are even permitted very late in the year and after the end of the year if the employer contributes at least 4% of employees' pay instead of the regular 3%. It also allows employers to adopt a plan for a taxable year as long as the plan is adopted by the due date for the employer's tax return for that year (including extensions).
- **Provides safe harbor certainty for plan sponsors when selecting a lifetime income provider –** The SECURE Act includes a provision that removes ambiguity about the insurance carrier vetting process, allowing fiduciaries to rely on information provided by the insurer regarding its financial status and products.
- **Enables long-term part-time employees to participate in employer plans –** Employers (with the exception of collectively bargained plans) are required to include part-time workers as participants in defined contribution plans. Eligible employees will have completed at least 500 hours of service each year for three consecutive years, and are age 21 or older. However, these participants can be excluded from employer contributions, nondiscrimination and top-heavy requirements.
- **Enables consolidated Form 5500 reporting for similar plans** – The SECURE Act offers a consolidated Form 5500 for certain defined-contribution plans with a common plan administrator to reduce administrative costs. However, it also increases penalties for failure to file retirement plan returns, such as Forms 5500, required notifications of registration changes, and required withholding notices.

  Although many SECURE Act provisions were effective January 1, 2020, a remedial amendment period will allow employers to make some changes to their plans as late as the 2022 plan year.[2]

FOR INDIVIDUAL INVESTORS AND RETIREES:

- **Allows individual retirement account (IRA) contributions beyond age 70 ½** - The Act eliminates the age limit for making non-rollover IRA contributions, enabling you to contribute to a traditional IRA, as long as you are still working, regardless of your age.
- **Raises the age for required minimum distributions (RMDs) to 72 -** As Americans continue to live longer, raising the RMD age limit from 70 ½ to 72 could help savings last longer in retirement.
- **Removes the stretch IRA option for non-spouse beneficiaries -** The Act no longer allows most non-spouse IRA beneficiaries to take required minimum distributions over their own life expectancy. Instead, they will be required to deplete the inherited balance within 10 years of the decedent's death (certain exceptions apply). IRA account owners with non-spouse beneficiaries should work closely with their tax and financial advisors to review their estate planning strategy.
- **Allows up to $5,000 in penalty-free retirement plan distributions for qualified birth or adoption expenses** - The distribution must be taken within one year of the child's birth or the finalization of the adoption to be considered a qualified distribution. Though not mandated, it may be repaid back to the retirement account. Keep in mind, while the penalty is waived, taxes still apply to these distributions.
- **Allows portability of lifetime income products** - If a lifetime income option is no longer available under an employer plan, 401(k), 403(b), and 457(b) plans may make a direct trustee-to-trustee transfer of the lifetime income assets to another eligible retirement plan or individual retirement account (IRA).

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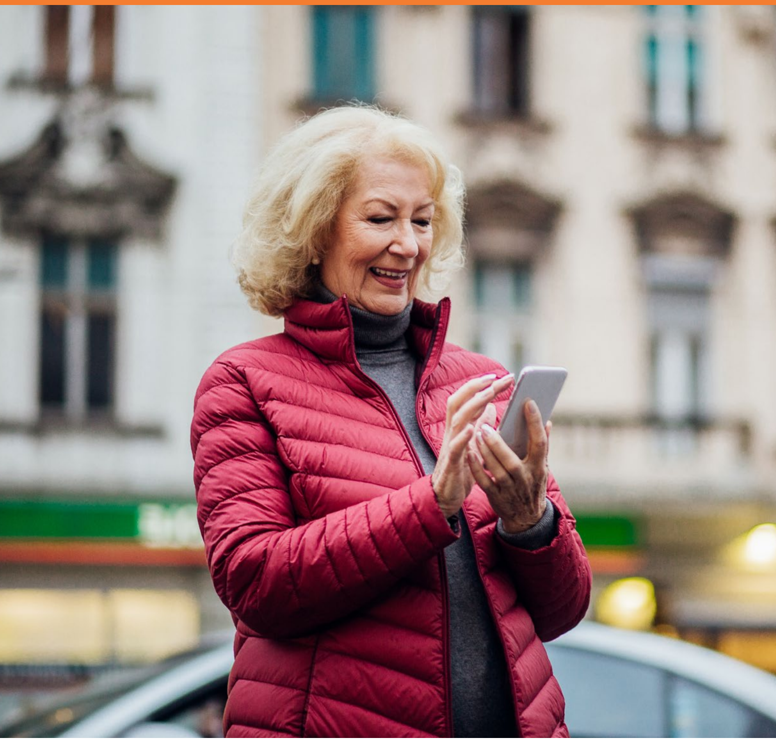

- **Increases transparency for lifetime income options** – New, required disclosures increase transparency into retirement income, helping retirement savers visualize their monthly retirement income by providing a monthly payment projection based on their current savings.
- **529 funds can be used to pay down student loan debt, up to $10,000** - If families have money remaining in their college savings plans after their student(s) graduates, they can now use a 529 savings account to pay up to $10,000 in student debt over the course of the student's lifetime. Under the new law, a 529 plan may also be used to pay for certain apprenticeship programs.

PREPARING FOR CHANGE UNDER THE SECURE ACT

Working with your financial advisor to update and clarify your personal and business financial goals helps to ensure your future plans remain on track as changes occur that impact your life, business, tax situation or the financial markets. For more than 25 years, our team of experienced wealth advisors and retirement plan specialists at **Planned Financial Services** and **401(k) Prosperity** have been helping businesses and individuals simplify the complex, by planning for and navigating an ever-changing financial and retirement planning landscape.

401(k) Prosperity, the institutional and corporate retirement plan services division of Planned Financial Services, has earned the **Fiduciary Excellence Certification** from the **Centre for Fiduciary Excellence (CEFEX),** an independent organization that assesses and certifies Registered Investment Advisers (RIAs) for fiduciary excellence. Our **experienced team** is uniquely prepared to assist business owners, corporate retirement plan sponsors, and fiduciaries prepare for and comply with the SECURE Act's requirements. That includes coordinating plan reviews with your third-party administrator or recordkeeper to help determine what plan amendments will need to be implemented, whether gaps exist in your current plan design, and where meaningful enhancements can be made.

*To learn more about how the SECURE Act may impact you, your business or your corporate retirement plan, contact us today **440.740.0130**, or visit us at **PlannedFinancial.com** **or** **401kProsperity.com**.*

[1]PEWtrusts.org: Automatic Enrollment Can Boost Retirement Plan Participation, August 15, 2018

[2]NAPA-net.org: Key SECURE Act Provisions and Effective Dates, December 17, 2019