Legislative Bulletin:

The Secure Act and What it Means for You and Your Employees

After 3 years of work and development, congress passed the Secure (Setting Every Community Up for Retirement Enhancement) Act. This bill is the first major piece of legislation related to retirement in over a decade and considered a bipartisan victory amid current political tension.

How we got here

- Only 55% of American workers participate in an employer-sponsored retirement plan.[1]

- Only 53% of small to mid-sized employers offer a retirement plan, with 37% of those saying they do not offer one because the cost is too high and 22% say they do not have the organizational resources.[2]

- Median 401(k) balance for Americans above the age of 65 have a median balance of only $58,035.[3]

Queue the Secure Act

Legislators decided to act. The goal of the Secure Act is to offer American workers improved retirement security through various provisions.

The bill removes certain barriers to entry for small businesses and should increase accessibility across employers, encourage employees to contribute, keep them invested, and provide them with retirement income options.

Breaking it Down

Open Multiple Employer Plans (MEPs): The Secure Act allows two or more unrelated employers to join a pooled employer plan. This means small plans can band together to receive similar benefits as larger plans (typically better recordkeeping fees, greater investment flexibility, administrative support). This provision also removes the "bad apple" rule which punishes the entire MEP when one plan commits a violation, making this plan more attractive and more accessible to small companies.

Questions? Please reach out to your Pensionmark advisor at (401) 272-7070 or MeridienTeam@pensionmark.com

[1] National Compensation Survey for 2018.
[2] The Pew Charitable Trusts National Survey of Small Business 2017.
[3] Vanguard Study, How America Saves 2019.

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Small Employer Startup Credit: Starting in tax-year 2020, small employers receive an increased tax credit related to costs for setting up a retirement plan (from only $500 to $5000) and offers a new tax credit of $500/year for those who set up plans that include automatic enrollment. The latter is also available to employers who convert an existing plan to auto-enroll.

Lifetime income: The bill requires DC, 403(b), or 457 plan participants to receive annual lifetime income disclosures (even if the plan does not offer annuities) as a monthly estimate. To encourage employers to offer annuity options it also relives the plan sponsor of fiduciary liability if the insurer cannot meet the financial obligation if certain requirements are met. Lastly, if allows a participant to transfer the investment to another plan or IRA if a plan eliminates a guaranteed lifetime income investment as an option.

Safe Harbor 401(k): The bill increases the auto-escalation cap from 10% to 15% in auto-enroll safe harbor plans under a qualified automatic contribution arrangement (QACA) and eliminates safe harbor notice requirement for nonelective safe harbor 401(k) plans. It also allows for plans to switch to a safe harbor 401(k) plan with nonelective contributions any time before the 30th day before the plan year-end date or retroactively convert elections to nonelective safe harbor status if the contribution is at least 4% of compensation and the plan is amended by the close of the following plan year.

Eligibility: Enables employers to enroll part-time employees who work either 1,000 hours throughout the year or have three consecutive years with 500 hours of service.

Distributions: The bill raises the age for Required Minimum Distributions from 70 ½ to 72 and allows for penalty-free withdrawal for individuals of any age in case of child or adoption.

You can read the other provisions and their descriptions [here].

Wrapping it up

The Secure Act should have a significant effect on retirement plan design, administration, and operation by simplifying and reducing the startup costs of offering a retirement plan. Additionally, it aims to help prevent pre-retirees from outliving their retirement assets and encourage them to start saving.

Congress did their part, but there is still a lot of work to be done from an employer and advisor standpoint to ensure that American workers retire with dignity and on their own time. To learn more about the Secure Act or what you can do as an employer, please reach out to your Pensionmark advisor.