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NAHAD Issue Alert

The SECURE Act and changes to retirement savings

At the end of 2019, Congress passed the SECURE Act to improve retirement security for millions of Americans. Under the legislation, it will be easier for NAHAD members to help their employees save for retirement. This legislation builds on efforts by the Trump administration to create multiple employer retirement plans to lower overhead costs paid by employers and workers. For many small businesses, one of the many ways employers are competing with others is better benefits including retirement benefits. The SECURE Act makes it easier to offer these benefits to employees.

The SECURE Act

As part of a year-end legislative package Congress passed the SECURE Act. The Setting Every Community Up for Retirement Enhancement Act (SECURE Act) will impact future retirement plans for businesses and retirees. This legislation includes:

- **401(k) safe harbor plans-** Employee contributions are automatically increased annually by a set percentage
- **Offer 401(k) plans for part-time employees-** Employees that work 500+ hours but less than 1000 hours in three consecutive years are eligible for 401(k) plans
- **Tax credits for small employers**- Small employers of 100 employees or less that do not have a plan but start one that covers one or more employees may take a tax credit for administrative costs up to $500 per year for the following three years
- **Multiple employer plans (MEP)**- Two or more unrelated employers can collaborate together for a shared employer plan
- **Required Minimum Distributions**- Increasing the minimum distribution age by an additional 18 months from age 70 ½ to age 72

The SECURE Act also contains provisions that will affect estate planning related to stretch IRAs – mandating that inherited IRAs must be fully dispersed within 10 years. Previously, upon the death of a beneficiary already taking required minimum IRA disbursements, the owner could pass on the remaining interest in an IRA and the heir could “stretch” distribution of the remaining interest over the life expectancy of the original beneficiary. For some heirs the 10-year distribution is significantly shorter than the life expectancy of the original beneficiary.

Department of Labor proposal on Multiple Employer Retirement Plans:

In late 2018, the U.S. Department of Labor (DOL) proposed changes to the definition of employer to allow for multiple businesses to join together for the administration of retirement accounts. Unlike previous rules involving group health plans through associations of similar businesses, the multiple employer retirement plans did not require the businesses to be in similar industries. With passage of the SECURE Act, this rule change was codified in law preventing any lawsuits to overturn the provision.

How multiple employer retirement plans help employees:

Retirement plan costs, including flat fees paid to plan organizers must be paid regardless of the number of participating employees. Only 28% of businesses with fewer than 10 employees offer retirement plans for employees, 51% of businesses with 10 to 24 employees offer retirement plans, and 63% of businesses with 25 to 49 employees offer retirement plans. Allowing businesses to band together to reduce overhead costs makes it easier for employers to offer retirement benefits to employees.

Setting up a MEP:

There are multiple ways to join a MEP. Three basic types of plans exist:

- Open multiple employer retirement plan
- Association retirement plan
- Closed multiple employer retirement plan

Closed and association plans are similar in that they require a common interest among the unrelated businesses. These plans can be based in a single geographic location without being in the same industry or be part of the same industry regardless of location. One major difference between closed and association plans is that self-employed individuals are limited to association plans, closed plans require the business to have employees. Some business associations such as chambers of commerce or industry groups may start offering multiple employer retirement plans, closed plans can be set up through a plan administrator.

Open plans were upgraded through the SECURE Act by allowing any company to join the retirement plan without the need for any kind of common interest or location. This expansion makes it much easier for small employers to join together into retirement savings plans. Like closed plans, this option can be created through a plan administrator. Using a professional plan administrator will ensure all rules and regulations are followed and ensure the plan maintains tax-exempt status.

Increasing benefit options for small employers:

In addition to multiple employer retirement accounts, the SECURE Act also made it easier for small businesses to set up retirement plans. Under the new law, any small business with less than 100 employees can receive a 50% tax credit on the start-up costs of a retirement plan. Additionally, small employers that automatically enroll their employees in a retirement plan are eligible for $500 tax credit for up to three years. This automatic enrollment tax credit also applies to existing retirement plans that are changed to automatic enrollment.

Additional changes to help employees:

In order to expand retirement savings, the SECURE Act granted long-term part-time employees the ability to participate in 401(k) retirement plans. This expansion will help part-time employees to save for retirement in addition to existing individual retirement accounts (IRAs). Under the SECURE Act, long-term part-time employees are defined as working more than 500 hours a year over three years and over age 21.