FIDUCIARY FOCUS

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WHAT IS THE SECURE ACT?

BY SARAH PARKER, AIF®, SENIOR MANAGING DIRECTOR

The Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law on December 20, 2019 by President Trump. The provisions in the SECURE Act are aimed at expanding access to retirement accounts and improving the retirement savings gap. Most provisions of the law become effective on January 1, 2020.

Below is a summary of the primary provisions applicable to plan sponsors:

- **Increased Qualified Automatic Contribution Arrangement Cap to 15%**
  When a plan elects auto-enrollment, it may be alongside an auto-increase feature, which automatically increases a participant's contributions annually with a cap. Plan sponsors are now able to automatically increase employee contributions at a cap of 15% under the SECURE act (previously 10%). Typically, employees see a 1% increase annually with an option to opt-out.

- **Increased Required Minimum Distribution Age of 72**
  The new law raises the required minimum distribution age from 70½ to 72. The change is a recognition that Americans may be working and living longer.

- **Expanded Hardship Distribution Changes**
  Upon the birth or adoption of a child, the law permits an individual to take a "qualified birth or adoption distribution" of up to $5,000 from a Defined Contribution plan or IRA. This participant is not subject to the 10% early withdrawal penalty. If you're married, each spouse can withdraw $5,000 from his or her own account. You have one year from the date your child is born or the adoption is finalized to withdraw the funds from your retirement account without paying the 10% penalty. You can also put the money back into your retirement account at a later date.

- **Increased Access to Retirement Plans for Small Employers**
  Multi-Employer Plans (MEPs) will now be easier to access and create. A MEP is a retirement savings plan adopted by two or more employers who join forces. Previously, MEPs were only available if a common interest or association existed (e.g., trade association, union).

- **Encouragement of Annuity Options Inside Retirement Plans**
  Previously, plan sponsors had the responsibility to vet annuities, but under new safe harbor provisions, the onus will be placed on insurers to provide employers with appropriate annuities. The provision hopes to accomplish long-term investment thinking and stability of dollars in a retirement plan.

- **Part-time Workers can Participate in Employer Plans**
  The new law guarantees eligibility for employees who have worked at least 500 hours per year for at least three consecutive years. The part-timer must also be 21 years old by the end of the three-year period.

- **Increased Small Business Credits**
  A maximum tax credit of $5,000 is available for employers offering a retirement plan and adding auto-enrollment.

- **Requirement of Lifetime Income Disclosure for Defined Contribution Plans**
  The SECURE Act requires plan administrators to provide annual "lifetime income disclosure statements" to plan participants.

- **Removal of Age Limitations on IRA Contributions**
  The law removes the age limit at which an individual can contribute to a traditional IRA. Previously, an individual could not contribute after age 70½. The Act allows anyone that is working and has earned income to contribute to a traditional IRA.

WHAT DO I DO AS A PLAN SPONSOR?

Begin to think about optional changes that may be aligned with your views. In addition, begin to ask service providers for their inputs on the new laws and anticipated compliance time frames. Most of the industry has until year-end 2022 to comply.