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Landmark Legislation Impacts Retirement Plans

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New legislation designed to help more Americans build a personal retirement account should make it easier for employers - especially small businesses - to provide the service to their employees.

At the end of the year, President Donald Trump signed into law the Setting Every Community Up for Retirement Enhancement Act of 2019 - the SECURE Act - which affects the rules for creating and maintaining employer-provided retirement plans.

The changes in the law that have an impact on employer-sponsors of retirement plans apply to both large employers and small employers, but some of the changes are especially beneficial to small businesses:

• The new rules increase the credit for plan start-up costs to make it more affordable for small businesses to set up retirement plans. The credit is in addition to an existing plan start-up credit, and is available for three years. The new credit is also available to employers who convert an existing plan to a plan with an automatic enrollment design. Starting in 2020, the new rules create a new tax credit of up to $500 per year to employers to defray start-up costs for new 401(k) plans and Savings Incentive Match Plans for Employees (SIMPLE) IRA plans that include automatic enrollment.

• Starting in 2020, the new rules increase the cap on the default rate under an automatic enrollment safe harbor plan from 10% to 15%, but only for years after the participant's first deemed election year. For the participant's first deemed election year, the cap on the default rate is 10%.

• Starting in 2021, the new rules reduce the barriers to unrelated employers banding together to create a single retirement plan which will help increase opportunities for small employers allowing for more efficient and less expensive management services.

• Currently, employers are generally allowed to exclude employees who work less than 1,000 hours per year from company retirement plans. In 2021, a 401(k) plan will need to offer an eligibility requirement under which an employee may be become a participant if he/she has three consecutive years of service with at least 500 hours of service per year.

Whether you currently offer your employees a retirement plan (or are planning to do so), you should consider how these new rules may affect your current retirement plan (or your decision to create a new one). If you have any questions about these news regulations and requirements, please contact me.

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