

## Don't miss out: SECURE Act tax credits & 401(k) plan features

The most comprehensive pension reform in 20 years, the SECURE Act is a step forward to allow people greater access to retirement plans



The Act hopes to expand retirement savings while alleviating administrative headaches. As such, the SECURE Act includes incentives such as:

- Tax credits to encourage business owners to set up a workplace retirement plan
- 401(k) plan design features to help employees better prepare for their futures
- Administrative improvements for managing a retirement plan

### Tax credits for small businesses

Tax credits for eligible employers are designed to alleviate some of the 401(k) start-up costs and incentivize businesses with 100 or fewer employees to offer a retirement plan.

Two credits are available:

- **Startup costs.** A tax credit of 50% of eligible startup costs up to \$5,000 for each of the plan's first three years
- **Auto-enrollment credit.** An additional tax credit of \$500 per year for a three-year period for offering auto-enrollment into the plan

This equates to up to \$5,500 a year, or \$16,500 over three-years, for an employer who takes advantage of both tax credits.

### 401(k) plan design features

There are countless ways to design a retirement plan, from the type of plan and available features, to who is eligible and how much they can contribute. Here we highlight a few of the SECURE Act provisions that may enhance your retirement plan design for today's generationally diverse workforce:

- **Increased default savings cap.** To help boost savings, the SECURE Act allows safe harbor plans with automatic-enrollment to increase the auto-escalation cap from 10% to 15% of an employee's paycheck. This means that plans can be set to automatically increase each year until employees reach a retirement deferral rate of 15%. Of course, employees can opt out at any time.
- **Plan eligibility for part-time employees.** Prior to the passage of the SECURE Act, part-time employees could be excluded from participating in the 401(k) plan. Now part-time employees who work at least 500

hours per year in the preceding three years are able to make elective deferrals. However, employers are not required to match these contributions.

- **Extended saving options for pre-retirees.** With a quarter of the workforce made up of Baby Boomers,<sup>1</sup> many are looking to save longer. The SECURE Act has raised the required minimum distribution (RMD) age from 70 ½ to 72 (and this looks to be extended further with the pending passage of the SECURE Act 2.0). Participants born on or after July 1, 1949, can save longer without being required to withdraw from their tax-deferred retirement account.
- **Lifetime income illustrations.** These projections are designed to give participants an idea of what their account balance would provide as a monthly income amount, beginning at age 67 if the balance was annuitized. The purpose of the illustrations is to help participants learn whether they're on track to retiring comfortably.

### **Administrative improvements**

The SECURE Act also aimed to alleviate some of the administrative burdens that come with managing a company-sponsored retirement plan.

Plan sponsors can easily switch to a safe harbor with non-elective contributions:

- At 3% at any time before the 30th day before close of the plan year,
- On or after the 30th day before the end of the following plan year, but the contribution must be increased to 4%, and
- Eliminates safe harbor notice requirements for plans, providing non-elective contributions.

### **Keeping your plan SECURE**

While this is a sampling of the exciting and beneficial elements of the most comprehensive retirement plan reform in two decades, there is so much more in the original and the upcoming SECURE Act 2.0.

This is where we come in. Contact us to better understand how the Secure Act can enhance your organization's retirement plans. [hhconsultants.com](https://www.hhconsultants.com)

<sup>1</sup> Bureau of Labor Statistics, "[Labor Force Statistics from the Current Population Survey](#)", 2020

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