The SECURE Act: Our Take on Implications for Plan Sponsors

The SECURE Act impacts the 401(k) landscape in several ways, adding what some see as common sense provisions and potentially expanding retirement plan access to more Americans.

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Key Takeaways:

- Small businesses have more incentives to set up a 401(k). One bad apple will no longer kill the entire crop in multiple employer plans.
- In-plan annuity options are now permitted.
- Auto enrollment contribution cap has been raised.
- Certain part-timers are now eligible for 401(k)s.
- This is good time for plan sponsors to revisit their plan design and overall objectives.

FRIENDLIER TO SMALL BUSINESSES

Increases the business tax credit for establishing a plan

The Act makes it more affordable for small businesses with 100 or fewer employees to set up a retirement plan. The tax credit will increase from the current cap of $500 to up to $5,000 over a three-year period.

If the employer uses an automatic enrollment feature, there would be an additional $500 credit.

Implication: Small business owners who have not yet established a retirement plan for their employees may want to consider taking advantage of the new credit to do so. In a tight labor market, having a retirement plan can be a potential differentiator.

Small Businesses Can More Easily Band Together in Multiple Employer Plans

While Multiple Employer Plans (MEPs) have been around for a while, there were a couple of key deterrents to unrelated employers banding together to participate in one retirement plan. Previously, only "closed" MEPs were allowed: participating employers had to share common organizational relationships such as being in the same industry or trade association. Now "open" MEPs, also referred to as PEPs (Pooled Employee Plans), will allow unrelated employers to participate in a group plan, administered by what the SECURE Act calls a pooled plan provider, such as a financial services company.

Also, MEPs faced the "one bad apple" rule – where a negligent member who violated fiduciary rules could pose liability risk to the entire plan – which has now been eliminated.

Implication: This is a very interesting part of the Act depending on what plan sponsors decide to do. Beginning in 2021, as long as the MEP follows certain requirements and uses language to address potential issues, this could be a unique way for groups of employers to band together for a group plan solution.

Introducing Annuities to 401(k)'s

With the addition of annuities as a potential investment option in 401(k) plans, these lifetime income contracts now have a safe harbor for fiduciary protection against the insolvency of the offering insurance company, thus taking away some of the legal risks for plan sponsors. An insurance company underwriting these products would need to follow specific guidelines including allowing rollover and portability options. Participant statements will be required to show a participant potentially how much he or she could receive in retirement if they were to invest in the annuity.

Implication: 401(k) plans have done have helped many participants accumulate savings for retirement. Easing the way for in-plan annuities can assist participants in drawing down their savings in retirement, offering a steady stream of income. That said, annuities are complex investment products, so more participant education and decision-making support will be needed.

Expansion of Automatic Enrollment Provisions

As automatic enrollment continues to gain steam within the qualified retirement plan market, it's worth noting that many employees now participate in their plans as a result of not having to 'opt-in'. This is under an arrangement called a QACA (qualified automatic contribution arrangement) where the auto-enrollment amount increases year over year, limited to a cap of 10%. The act increases the cap from 10% to 15% after the first year.

Implication: While a 10% cap may sound like it's a lot, 15% may help mid-career employees who have little workplace savings to catch up. And auto enrollment has shown it can be a simple but effective behavioral measure to get people to save more for retirement.

Certain Part Time Employees Now Eligible to Participate

Long-term, part-time employees at companies offering a 401(k) plan may now be eligible to participate. Employees working 500 hours in three consecutive years (12-month periods) would be eligible to make salary deferrals.

Implication: Broadening access to more workers is a positive development.

What should plan sponsors do now?

The SECURE Act presents organizations with opportunities to establish new plans or to consider design changes to their current plans. As a next step, we believe plan sponsors should rethink their short- and long- term objectives and request a comprehensive plan review with their plan advisors and providers.

For more information on how the SECURE Act affects your organization, talk to your local Lord Abbett retirement director or specialist, or call us at 888-522-2388.

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See how Lord Abbett can help

Retirement plan lineups are always evolving, and it's critical to evaluate if a current plan menu meets participants' needs for income, stability and less equity-like volatility on an ongoing basis. Ask your Lord Abbett Relationship Manager about this Morningstar development and what it means for plan sponsors.

We can assist you in evaluating fixed income products that best meet the needs of retirement plan clients. Together, we can put all the resources and solutions of Lord Abbett and your firm to work for your client.

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GLOSSARY

A **401(k**) is a qualified retirement savings plan established by employers to which eligible employees may make salary deferral (salary reduction) contributions on an aftertax and/or pretax basis. Employers offering a 401(k) plan may make matching or nonelective contributions to the plan on behalf of eligible employees and may also add a profit-sharing feature to the plan. Earnings accrue on a tax-deferred basis.

A **plan sponsor** is a designated party—usually a company or employer—that sets up a retirement plan, such as a 401(k), for the benefit of the employees.

An **annuity** is a financial product that pays out fixed payments to an individual, and these financial products are primarily used as an income stream for retirees.

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