SECURE Act: Good News For Business Owners

If you own a business, you know that setting up a retirement plan for yourself and your employees can be challenging. But it may now be getting easier.

Here's the story: Congress recent passed the SECURE Act, which, among many provisions, includes some key changes designed to help make it easier for business owners to establish retirement plans. And the need is clear: Just slightly more than half of workers at private-sector establishments with fewer than 100 employees have access to a retirement plan, according to the U.S. Bureau of Labor Statistics. And startup costs were named as the biggest impediment to creating such plans, according to research compiled by the Pew Charitable Trust.

The SECURE Act is designed to address this concern in a few different ways:

• *Increased business tax credit for plan startup costs* – The maximum tax credit for establishing a retirement plan has been increased from $500 to $5000, although some restrictions apply.

• *Tax credit for automatic enrollment* – Some smaller employers who set up automatic enrollment in their retirement plans can now receive a tax credit of $500.

• *Multiple-employer plans (MEPs)* – Different companies can now work together to offer employees a 401(k) plan with less administrative work and fewer fiduciary responsibilities than each employer would otherwise carry alone. This provision of the SECURE Act is intended to result in lower costs. These multiple-employer plans (MEPs) have been around for a while, but, until now, they were "closed" in the sense that participating employers needed to share some common relationship, such as membership to the same industry, trade association, etc. But now, these MEPs have been opened up to include unrelated companies.

These new rules may make it easier for you to create and administer a 401(k) or similar plan and potentially increase your employees' savings rate. However, to determine how your business should respond to these changes, you should consult with your tax and financial advisors.

And don't forget that you still have other retirement plan options. If you have just a few employees or are self-employed with no employees, you may want to consider a SEP IRA. You fund the plan with tax-deductible contributions, and you must cover all eligible employees – they cannot contribute to the plan. You can contribute up to 25% of compensation, up to $57,000 in 2020. Or, if your business has fewer than 100 employees, you might consider a SIMPLE IRA. Employees may choose to contribute, and you, as the employer, are required to make either matching or nonelective contributions, which are deductible. But while a SIMPLE IRA may be advantageous for your employees, it's less generous to you, as far as allowable contributions, than a SEP IRA. For 2020, your annual contributions are generally limited to $13,500, or $16,500 if you're 50 or older by the end of the year. You can also make a matching contribution of up to 3% to yourself.

In any case, if you don't already offer a retirement plan, consider contacting a financial professional to determine which plan might be most appropriate for your business. A retirement plan is an effective tool for attracting and retaining good employees – not to mention helping you build resources for your own retirement.

This article was written by Edward Jones for use by your local Edward Jones Financial Advisor.

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