New Choices For Business Owners

If you own a business and you offer a 401(k) or similar retirement plan to your employees, you'll want to stay current on the various changes affecting these types of accounts. And in 2024, you may find some interesting new developments to consider.

These changes are part of the SECURE 2.0 Act, enacted at the end of 2022. And while some parts of the law went into effect in 2023 — such as the new tax credit for employer contributions to start-up retirement plans with 100 or fewer employees — others were only enacted this year.

Here are some of these changes that may interest you:

• *New "starter" 401(k)/403(b)* – If you haven't already established a retirement plan, you can now offer a "starter" 401(k) or "safe harbor" 403(b) plan to employees who meet age and service requirements. These plans have lower contribution limits ($6,000 per year, or $7,000 for those 50 or older) than a typical 401(k) or 403(b) and employers can't make matching or nonelective contributions. These plans are low-cost and easy to administer but the credit for employer contributions doesn't apply, as these contributions aren't allowed, and since start-up costs are low, the tax credit for these costs will be correspondingly lower than they'd be for a full-scale 401(k) plan.

• *Matches for student loan payments* – It's not easy for young employees to save for retirement and pay back student loans. To help address this problem, Congress included a provision in Secure 2.0 that allows employers the option to provide matching contributions to employees' retirement plans (401(k), 403(b), 457(b) and SIMPLE IRAs) when these employees make qualified student loan payments. Of course, if you offer this match for student loan payments, your costs will likely increase, although these matching contributions are tax deductible. In any case, you may want to balance any additional expense with the potential benefit of attracting and retaining employees, particularly those who have recently graduated from college.

• *401(k) eligibility for part-time employees* – Part-time employees who are at least 21 years old and have at least 500 hours of service in three consecutive years must now be eligible to contribute to an existing 401(k) plan. The inclusion of part-time employees could lead to higher business expenses for you, depending on the amount of contributions you may make to employees' plans. Again, though, you'd be offering a benefit that could be attractive to quality part-time employees.

• *Emergency savings account* – Many people, especially those who don't earn high incomes, have trouble building up emergency funds they can tap for unexpected costs, such as a major home or car repair or large medical expenses. Now, if you offer a 401(k), 403(b) or 457(b) plan, you can include a pension-linked emergency savings account (PLESA) that allows non-highly compensated employees to save up to $2,500, a figure that will be indexed for inflation in the future. PLESA allows for tax-free monthly withdrawals without incurring a 10% tax penalty. PLESA contributions are made on an after-tax (Roth) basis and must be matched at the same rate as other employee contributions.

You may want to consult with your tax and financial professionals to determine how these changes may affect what you want to do with your retirement plan. The more you know, the better your decisions likely will be.

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

Edward Jones, Member SIPC

1 – May 27, 2024
544 words