



The SECURE ACT

Setting Every Community Up for Retirement Enhancement Act of 2019

SECURE Act Overview

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) came into effect on January 1, 2020. The legislation brings changes for long-term retirement savings and affects individuals at every age. The primary aim of the legislation is to enhance financial security across the country and ensure there is increased access to allow individuals to make retirement contributions.

The new law contains a laundry list of implementations that changes the retirement plan design, administration and compliance requirements. Our focus will be on how it impacts the Financial Services space: Asset management industry and Broker-dealers realm-- fiduciary-related rules.

Overall, the SECURE Act will change the landscape for Retirement Plans and individual retirement accounts, which is set into effect, creates new business opportunities that will benefit all players in the market – plan administrators, plan sponsors, custodian, and individual investors.

Key Considerations for Plan Administrators and Sponsors

In 2021, plan admins will be able to offer **Multiple Employer Plans (MEP)** to unrelated employers. This will allow numerous small companies to sign up for a centrally administered plan, which would reduce recordkeeping costs and potentially allow plans access to lower cost investments options.

Part time employees who work more than 1,000 hours in a single year or 500 hours per year for three consecutive years are now eligible to participate in 401(k) plans. These participants can be excluded from safe harbor contributions and various testing rules.

Businesses may create a plan and adopt a creation day as of the last day of the taxable year, allowing employers more time to create the plan and allowing employees to receive contributions for the earlier year.

Combined Annual Reports for Group of Plan allows plans that are similar (same trustee, administrator, fiduciary, plan year end, investment options) to consolidate Form 5500 filings, which would reduce administrative cost.

Allowance of **portability (transfer) of annuity investments** from 401(k) to 401(k) or IRA. This will give the individual an option to not pay surrender charges and fees.

Annuities can now be offered in 401(k)'s by plan sponsors without fear of legal liability if annuity provider fails to meet their obligations. Plan fiduciaries are afforded an optional safe harbor to satisfy the prudence requirement with respect to selection of insurers. The plan fiduciary can now rely on the insurer's representation that it is compliant with state insurance laws.

Plan administrators must add a **Lifetime Income Disclosure** in the statements provided to the plan participants at least once during any 12-month period. This lifetime income disclosure requirement will become applicable more than 12 months following the later of DOL's issuance of (i) interim final rules, (ii) a model lifetime income disclosure, or (iii) assumptions used to convert total accrued benefits to lifetime income streams.

Changes Affecting Custodians

Minimum distribution rules for beneficiaries of defined contribution plan and IRA accounts have been modified by eliminating the stretch option for certain types of beneficiaries. Under the new rules, most of non-spousal beneficiaries may be required to withdraw and pay taxes on all distributions within 10 years of the death of the original account holder.

Prohibition on contributions to a traditional IRA by individuals who are 70.5 years of age have been removed. For taxable year 2020 and beyond, the law removes the age limit at which an individual can contribute to a traditional IRA.

Minimum age at which retirement plan participants need to take **required minimum distributions (RMDs)** has been increased from 70.5 to 72.

Tax free distributions from 529 savings accounts can be availed to cover cost for certain apprenticeship, homeschooling, and up to \$10,000 annually for qualified student loan repayments, and private elementary, secondary, or religious schools.

Other Significant Changes

- New parents can take withdrawals of up to \$5,000 with no penalty for qualified expenses of childbirth or adoption.
- Taxable non-tuition fellowship and stipends payments will be allowed to be treated as compensation to qualify for an IRA and Roth IRA contribution.
- Increasing the Auto Enrollment Safe Harbor Cap from 10% to 15%. Participants of a plan could elect to have their contribution go up automatically each year until they are contributing 15%.

- The addition of a \$500 tax credit on startup costs for plans that include auto enrollment.
- Increase of tax credit for plan startup costs from \$500 to \$5,000 for up to three years.
- Increase in penalties for:
 1. Failure to file to the lesser of \$400 or 100 percent of the amount of the tax due. Previously the penalty for failing to file was \$330
 2. Failure to file retirement plan returns (Form 5500) to \$105 per day, not to exceed \$50,000.
 3. Failure to file a Registration Statement would incur a penalty of \$2 per participant per day, not to exceed \$10,000
 4. Failure to File a Notification of Change would result in a penalty of \$2 per day, not to exceed \$5,000.
 5. Failure to provide a required withholding notice results in a penalty of \$100 for each failure

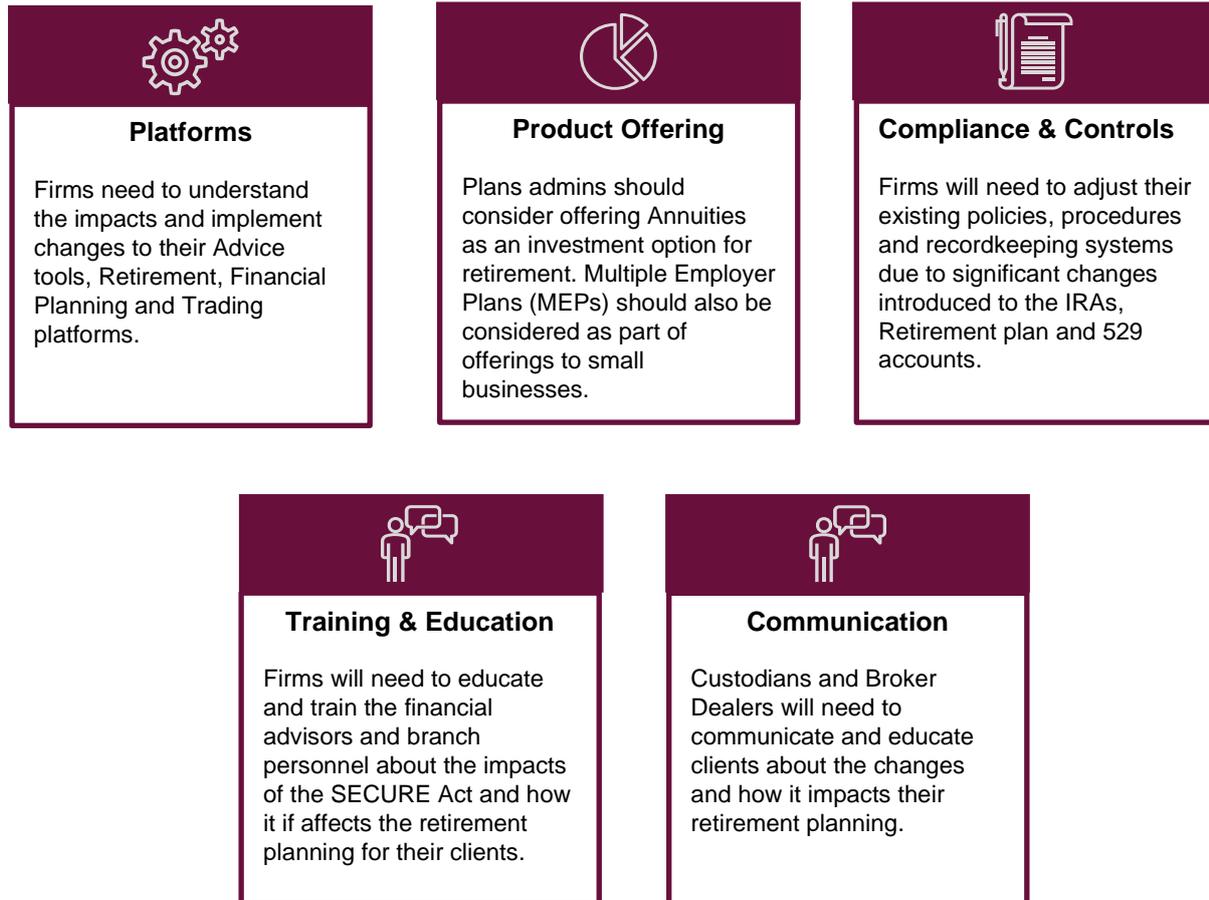
Conclusion

The SECURE Act has induced some of the most significant changes to the American retirement system in recent history. It will benefit plan administrators, plan sponsors, and increase individual investors ability to save more for their retirement and create mechanism for them to generate lifetime income, as well as giving the IRS an opportunity to increase revenues. Many of the enhancements are already in effect as of January 1st, 2020.

Plan sponsors and Wealth Management firms should gain an understanding and respond to those changes by making appropriate adjustments to their operating models.

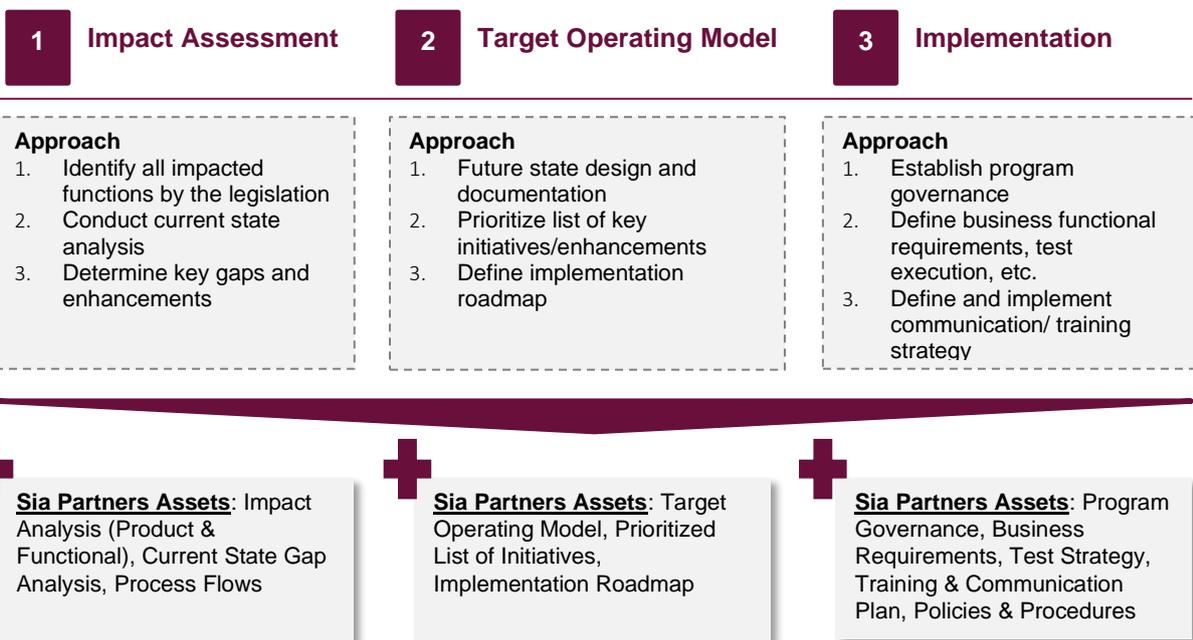
Sia Partners will continue to analyze the impacts of the rule to determine how it impacts the operations and compliance of our customers.

Key Impacts & Considerations



How Sia Partners Can Help?

Sia Partners has extensive experience delivering Retirement Solutions in the Wealth Management space and a strong understanding of the industry best practices to assist firms in their initiatives to comply with SECURE Act legislation.



Your Contacts

BHARAT SAWHNEY

Partner

Bharat.Sawhney@sia-partners.com

+1 (314) 749-5755

RAJAT CHOUDHARY

Managing Director

Rajat.Choudhary@sia-partners.com

+1 (732) 485-8553

CRAIG MOYLAN

Managing Director

Craig.Moylani@sia-partners.com

+1 (732) 614-2794

ALYSHA PAREKH

Consultant

Alysha.Parekh@sia-partners.com

+1 (551) 221-1457

ABOUT SIA PARTNERS

Sia Partners is a next generation consulting firm focused on delivering superior value and tangible results to its clients as they navigate the digital revolution. With over 1,400 consultants in 16 countries, we will generate an annual turnover of USD 280 million for the current fiscal year. Our global footprint and our expertise in more than 30 sectors and services allow us to enhance our clients' businesses worldwide. We guide their projects and initiatives in strategy, business transformation, IT & digital strategy, and Data Science. As the pioneer of Consulting 4.0, we develop consulting bots and integrate AI in our solutions.



Abu Dhabi | Amsterdam | Baltimore | Brussels | Casablanca | Charlotte | Chicago | Denver | Doha
| Dubai | Frankfurt | Hamburg | Hong Kong | Houston | London | Luxembourg | Lyon | Milan |
Montréal | New York | Paris | Riyadh | Rome | Seattle | Singapore | Tokyo | Toronto |



For more information, visit www.sia-partners.com

Follow us on **LinkedIn** and **Twitter @SiaPartners**