

BUSINESS

By Jamie Herzlich

Small business: How will the SECURE Act affect you?

"If companies are focusing just on the tax credit and ignoring all the other parts of what makes an effective plan, it will fail," says Charles Massimo, CEO of CJM Wealth Management in Deer Park. Credit: CJM Wealth

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New legislation aimed at incentivizing small businesses to offer retirement plans was signed into law this past December.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act comes with a host of provisions including increasing the amount of tax credits companies can claim for setting up a plan. It also allows unrelated small employers to participate collectively in open Multiple Employer Plans (MEPs), helping to reduce the administrative costs and duties of each individual employer.

But even with these allowances, it's too early to tell whether it will spur more small employers to offer retirement plans, say experts.

"It's a big law and it has a lot of provisions," says John Scott, director of The Pew Charitable Trusts Retirement Savings Project, which studies the challenges and opportunities for increasing retirement savings. "Whether it will have a big social impact is not clear yet."

There's going to be a "big education process" around the recently passed legislation, he says.

Kenneth C. Anna, a partner at STEINBERGANNA Wealth Management in Huntington, agrees, noting “most people don’t know anything about this.”

Even people within the industry have to go through an education process, he says.

“The financial community is still getting educated on what this means ... and the next step is to educate companies,” he says.

There will also be [education needed](#) on the consumer side considering it includes such provisions as removing the age cap (previously 70 ½) for contributing to traditional IRA’s; allowing eligible, long-term part-time workers to participate in 401(k) plans; and increasing the age at which people have to start taking minimum withdrawals from their retirement accounts from 70 ½ to 72, says Anna.

Overall, these are all “positives” for the individual, says Steven Brett, president of Marcum Financial Services, LLC in Melville, which assists companies in managing their retirement plans.

On the employer side, further guidance needs to be issued on one of the law’s key provisions regarding MEPs, which would allow unrelated businesses to join a single shared plan to reduce costs and help negotiate better fees, says Scott. Previously, employers had to share common organizational traits to be in an MEP, like be in the same industry, etc., he says.

The U.S. Department of Labor needs to issue guidance regarding the SECURE Act’s MEP provision, he says, noting MEP provisions take effect January 2021. The DOL didn’t respond to Newsday queries asking for further timeline details.

Beyond MEPs, another benefit to small businesses (those with 100 or fewer employees) is the tax credit for startup costs incurred for setting up a plan has increased from up to \$500 annually to up to \$5,000 for the first three years the

plan's in effect. There's also an additional credit of up to \$500 annually for three years for plans that include auto-enrollment, says Brett.

The startup credit "can provide significant savings to help small businesses set up and administer a plan on an annual basis, certainly for the first three years," he says.

Charles Massimo, CEO of CJM Wealth Management in Deer Park, an investment advisory firm, says even with the credit, he's not convinced this legislation will create more retirement options long-term.

"If companies are focusing just on the tax credit and ignoring all the other parts of what makes an effective plan, it will fail," he says, noting employers have to prioritize educating employees about their plans and why they should participate. "Employers will not continue paying for a plan that no one participates in."

One downside to the law, he says, is the elimination of the stretch IRA option, which allowed non-spouse beneficiaries of inherited retirement accounts to stretch required minimum distributions over their lifetime. Now the money must be withdrawn out of those accounts within 10 years, which poses a greater tax burden, says Massimo.

But Phil Waldeck, CEO of Newark-based Prudential Workplace Solutions Group, a business unit of Prudential Financial, feels like the benefits of the law outweighs that.

"Most Americans don't know what a stretch IRA is," he says. "But most Americans know what a 401(k) is."

He says the effects of the SECURE Act won't be immediate, noting, "I think this is the kind of thing that develops over time."

Still it offers solutions to two big hurdles of starting plans, which are cost and complexity, says Waldeck, referring to elements like the tax credit and MEP provision.

Asked if Prudential will enter the MEP market, Waldeck stated: “We are a leader in the [financial services] market and we will likely participate in some manner.”

Fast Fact:

Small businesses are less likely to offer a retirement plan than their larger counterparts. According to a 2018 survey by the U.S. Bureau of Labor Statistics, approximately 85% of workers at private-sector establishments with 100 or more workers were offered a retirement plan. In contrast, only 53% of workers at private-sector establishments with fewer than 100 workers had access to such plans.

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