

# SECURE Act becomes law. What you need to know.



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On December 20, 2019, the SECURE Act (Setting Every Community Up for Retirement Enhancement) was signed into law and represents some of the most sweeping retirement plan legislation since the Pension Protection Act of 2006. Here's a high-level overview of some of the new law's key provisions.

### Plan eligibility for long-term, part-time workers

The legislation requires employers to permit long-term, part-time workers to participate in 401(k) plans, opening eligibility to employees that complete either 1,000 hours within one year or 500 hours in each of three consecutive years. However, employers are not required to provide matching contributions for employees who become eligible for the 401(k) plan under this rule. This provision is generally effective for plan years beginning after 2020.

### Lifetime income disclosure

This provision requires employers to provide participants with an estimate of the annuity income that their account could produce. The Department of Labor will provide detailed guidance and model disclosures, which will become part of participants' annual statements. Employers and their recordkeepers will have at least 12 months after such guidance is published to implement the disclosures. There is also a fiduciary safe harbor for selection of a lifetime income provider.

### Birth or adoption withdrawals

The SECURE Act permits participants to take penalty-free withdrawals of up to \$5,000 from a qualified retirement plan for expenses related to the birth or adoption of a child, for up to one year following such birth or adoption. This provision may be implemented after December 31, 2019.

### Required Minimum Distribution age increased

The Act increases the age for required minimum distributions from age 70½ to 72, enabling certain workers and retirees to delay payouts from a retirement plan. This provision does not apply to participants already making such withdrawals. This change is effective for participants who turn 70½ after December 31, 2019.

### Safe Harbor plan administration

The SECURE Act eliminates the Safe Harbor notice requirement. It also permits a 401(k) plan to elect the 3% nonelective safe harbor at any time until 30 days before the close of the plan year. In addition, the Act permits a 401(k) plan to elect into the nonelective safe harbor even after the 30th day before the close of the plan year so long as the amendment to adopt the nonelective safe harbor is made by (1) the end of the following plan year, and (2) the nonelective contribution is at least 4%. This change is effective for plan years after 2019.

## Increased QACA Automatic Deferral Rate Cap

This provision retains the 10% cap for a participant's first year of participation — but permits the rate to be increased to 15% for subsequent years. This change is effective for plan years beginning after 2019.

## Consolidated Form 5500 Reporting

The Act directs the Internal Revenue Service and the Department of Labor to modify annual retirement plan reporting rules to permit certain common individual account plans or defined contribution plans to file a consolidated Form 5500. This provision is effective for plan years beginning after 2021.

## Increased penalty for Form 5500

The penalty for failure to file Form 5500 would be increased from \$25 to \$250 for each day during which the failure continues, and the maximum penalty that may be imposed would be increased from \$15,000 to \$150,000.

## What's next?

Several of the provisions will require modifications to plan operations and ADP will comply with all required changes. As always, we will keep you informed as we implement these changes. We value the trust you have placed in ADP, and are committed to providing you with retirement plan solutions that serve your company's needs and those of your employees.

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