

Key Employer Sponsored Retirement Plan Impacts of the 2019 SECURE ACT

SECURE Act | 2020

On December 20, 2019, the SECURE Act (Setting Every Community Up for Retirement Enhancement) was signed into law and as a result, there are some key impacts to qualified retirement plans beginning in 2020.

Below is a summary of the most notable Qualified Retirement Plan (QRP) changes for Plan Sponsors:

Increased Small Employer Tax Credits for QRPs

- Increased tax credits for Small Businesses for the first three years to defray start-up costs:
 1. Up to \$5,000 per year
 2. Can be used for up to three years for a maximum of \$15,000
- Additional Tax Credit for plans that add Automatic Enrollment feature:
 1. Up to \$500 for the first three years to cover the costs of setting up auto-enrollment for SIMPLE IRA and QRPs
 2. Applies to both new and existing plans

Easing of Safe Harbor 401(k) Election Rules

Gives employers the flexibility to switch to a non-elective safe harbor 401(k) arrangement in the middle of a plan year or into the following plan year. This could allow owners and highly compensated employees to maximize deferrals without fear of taxable refunds. Depending on the timing of election, it will require a 3% or 4% non-elective employer contribution.

Provides Plan Access for Part-Time Workers

Effective for plan years after 12/31/2020, a new eligible class of employees has been created for those that have completed 3 consecutive years of service with at least 500 hours each year. This class of employees must be allowed to contribute; however, employer contributions are not required for this class. Also, these employees may be excluded from compliance testing.

Investment and Insurance Products are:

Not Insured by the FDIC or Any Federal Government Agency

Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate

Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested

Lifetime Income Promotion	<ul style="list-style-type: none"> • Adds Lifetime Income Portability requirements • Provides Safe Harbor protection for fiduciaries to add Lifetime Income products if they are considered appropriate and fees are deemed reasonable • Lifetime Income Disclosure must be delivered every 12 months illustrating the anticipated monthly income based on each participant's account balance
Pooled Employer Plans (PEPs)/Multiple Employer Plans (MEPs)	<p>Effective for plan years after 12/31/2020, the Act removes the commonality requirement and one bad apple provision making it easier for plan sponsors to pool together into a single plan, including IRA based plans.</p> <p><i>Clarification is needed on specific parts of this provision and will be forthcoming from the Department of Labor and Internal Revenue Service.</i></p>
Other Updates	<ul style="list-style-type: none"> • For Plan Years 2020 and beyond, can start qualified retirement plans up to tax filing date including extensions • Form 5500 penalties increased for failure to file

Below is a summary of the most notable Qualified Retirement Plan (QRP) changes for Participants:

Penalty Free Withdrawals for Qualified Birth/Adoption Expenses	<p>Parents can withdraw up to \$5,000 from their retirement account to pay for birth or adoption expenses during the one-year period that begins on either the date of birth or the date on which the adoption is finalized. An eligible adoptee means any individual, other than a child of the taxpayer's spouse, who has not attained age 18 or is physically or mentally incapable of self-support. Individuals may also recontribute the amount distributed for this reason back to the plan if allowed.</p>
Increase in Required Minimum Distribution (RMD) Age	<p>Beginning in tax year 2020, the age to start Required Minimum Distributions (RMDs) from Traditional, SEP and SIMPLE IRAs, and Non Participating QRP's has been modified from age 70½ to age 72. (Note: This does not affect individuals who turned age 70½ on or before Dec. 31, 2019)</p>

STAY UP TO DATE - At Wells Fargo Advisors, we know that the changes to your QRP due to the SECURE Act may leave you with questions. We welcome the opportunity to work with you and your legal and tax professionals to determine how these changes impact your retirement plan goals.

This material is provided for informational purposes only. It is based on tax information and legislation as of December 2019. Investors need to make their own decisions based on their specific investment objectives, financial circumstances, and tolerance for risk.

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