New law improves retirement plan options for small-business employees

A sample 401(k) retirement statement. Credit: Getty Images/iStockphoto/DNY59

By Jamie Herzlich
jherzlich@aol.com

Updated February 13, 2023 2:09 pm

SHARE

Almost three-quarters of small businesses don't offer a 401(k) plan, according to a survey last year by ShareBuilder 401k, a provider to employers.

But now it might be more financially attractive for small businesses to start plans and entice employees to enroll thanks to a host of new provisions passed as part of the SECURE 2.0 Act of 2022.

The act has over 90 provisions affecting retirement savings plans for both employers and employees and is being touted as a significant move in helping to strengthen the overall retirement system.

“It makes it easier for more businesses to start a plan and for more employees to contribute,” says Ron Ulrich, vice president of product consulting and compliance for Florham Park, New Jersey-based ADP Retirement Services.

It builds upon the original SECURE Act, which was passed in December 2019 to increase workers' access to retirement savings, he explains. ADP provides a summary of key provisions in the new act at https://tinyurl.com/2s49z6dc.

Among new provisions, employers with up to 50 employees starting this tax year can be eligible for a three-year tax credit covering 100% of the start-up administrative costs associated with adopting a workplace retirement plan with an annual limit of $5,000, Ulrich says. Those with 50 or more employees would fall under the provision of the original SECURE Act that provides a three-year tax credit for up to 50% of administrative costs.

There’s also a new credit for eligible employer contributions that could be up to $1,000 per employee for those with up to 50 employees. “It’s another incentive for small businesses to start plans,” says Lazetta Rainey Braxton, co-CEO of Brooklyn-based 2050 Wealth Partners, a financial planning and wealth management firm.

Lazetta Rainey Braxton, co-CEO of Brooklyn-based 2050 Wealth Partners Credit: Jon Hargett Photography

This is a win for employees, she says, noting "your retirement plan is probably going to be your biggest asset for retirement income."

To help encourage employee participation in plans, employers who started new retirement plans after Dec. 29 will, beginning in 2025, be required to automatically enroll employees in their retirement plan at a rate of at least 3%, but not more than 10%, of eligible wages, according to ADP. Employees may opt out, and certain employers are excluded.

"Many employees that are automatically enrolled stay enrolled because the contribution amount is actually affordable," Ulrich says.

For younger employees, employers beginning in 2024 will be able to make matching contributions to their workplace retirement plans on behalf of employees who are paying down student loans instead of saving for retirement, Ulrich says.

"This helps the younger worker who is juggling, 'do I pay my student loan debt or do I contribute to my 401(k)'," says Kenneth C. Anna, a partner at STEINBERGANNA Wealth Management in Huntington.

Craig Ferrantino, president of Craig James Financial Services LLC in Melville, an investment and retirement planning practice, says the SECURE Act overall can help firms be more competitive in attracting employees and offering better, more comprehensive benefits packages.

As a company, you're seen as "archaic" if you don't offer some sort of retirement plan, he says.

"This is a great step in the right direction for improving the financial health of employees in businesses going forward," he says

Craig Ferrantino, president of Craig James Financial Services LLC in Melville, an investment and retirement planning firm
Credit: Jim Lennon

For employees, "it's an opportunity to say there is no excuse for them not to contribute to their future," Ferrantino says, particularly with such provisions as automatic enrollment.

He did say there will be some more administrative burden for employers starting in 2025 with such provisions as automatic enrollment, but overall the pros outweigh the cons.

Another provision being touted as beneficial is one that raised the age in which retirement plan participants must begin withdrawing required minimum distributions, or RMD, from 72 to 73, effective Jan. 1. Anna says. In 2033 that rises to 75. These are amounts that must be withdrawn annually from qualified plans to avoid penalties, Anna says.

The original SECURE Act extended the age from 70½ to 72, he says.

That means workers can grow their nest egg longer and delay taking mandated distributions from their plan, which once taken are taxed as ordinary income, Anna says.

Kenneth C. Anna, a partner at STEINBERGANNA Wealth Management in Huntington. Credit: Patricia Gasparro

In addition, the penalty for not taking an RMD is reduced from 50% of the amount required to be withdrawn currently to 25%, and down to 10% if corrected within two years, according to ADP.

For older workers, there's also a catch-up contribution provision impacting those ages 60-63, which would enable those theoretically closer to retirement to contribute more toward their plans starting in 2025, Braxton says.

Since there are so many provisions that will impact workers, she encourages employees to ask their employers about some of the new changes.

"We'll be sending all our clients the provisions and how they directly impact their financial plan," Braxton says.

Fast Fact:

In 2022, on average, employers provided a maximum percentage salary match of 6.8% for traditional 401(k) plans and 6.7% for Roth 401(k) plans.

Source: SHRM Employee Benefits Survey (https://tinyurl.com/ynacwmnk)

By Jamie Herzlich

jherzlich@aol.com

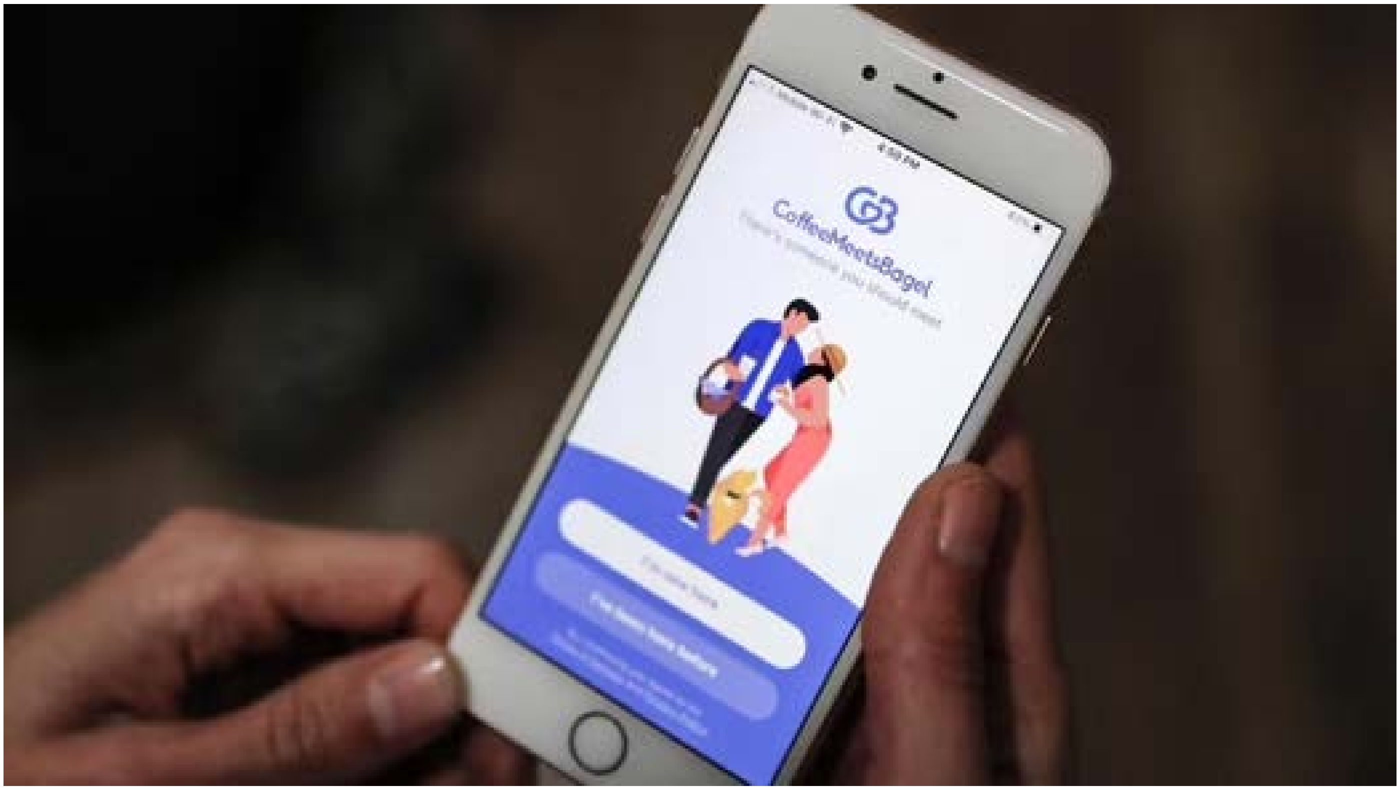
Herzlich writes the Small Business column in Newsday.

TOP STORIES

ONLY IN NEWSDAY

Wind farm windfall: Offshore power to generate nearly $4 billion for NYS businesses

7m read



Using dating apps, for better or worse

1m read

MOST POPULAR

LATEST VIDEOS

SEARCH NEWSDAY.COM

Quick Links

About Us

Subscribe

Today's paper

Email newsletters

Newsday Live

Newsday Charities

Careers

Manage my account

Media Kit

Brand 360

Mobile & TV apps

Partners

Newsday Productions

Newsday Cars

Newsday Homes

Newsday Jobs

Newsday Connect

Hometown Shopper

Contests

Archives

News

Long Island

Sports

Opinion

Politics

News

Business

Towns

High school sports

More

Funbook

Obituaries

Crosswords

Things to Do

Entertainment

Restaurants

Family

Travel

Privacy Policy |Terms of service |Subscription terms |Your ad choices |Cookies Settings |California Privacy Rights |About Us |Contact Newsday |Reprints & permissions |Advertise with Newsday |Help