House Ways and Means Committee Introduces "Securing a Strong Retirement Act of 2020" Bill

On October 27, 2020, House Ways and Means Committee Chairman Richie Neal (D-MA) and Ranking Member Kevin Brady (R-TX) introduced a sweeping bipartisan retirement bill, the "Securing a Strong Retirement Act of 2020." The bill contains a wide range of proposals designed to increase retirement savings and otherwise enhance retirement security.

It is unlikely this bill will reach the President's desk this year. However, we believe that the bipartisanship and stature of the bill's lead sponsors, along with the inclusion of a range of ideas that already have bipartisan support in the House and Senate, make it likely that these issues will receive serious consideration in the next Congress, regardless of the outcome of the November elections.

ASHA has always supported proposals that would enhance savings for retirement. The Neal/Brady retirement bill contains dozens of targeted changes in the retirement plan rules, building on changes enacted in 2019. Below we highlight some of the provisions that will be of particular interest to seniors housing businesses, their employees, and their residents. A more detailed summary prepared by House Ways and Means Committee staff is available here.

<u>Reduce Burden of Required Minimum Distribution (RMD) Rules</u>

- **<u>Increase in required beginning date to age 75 for mandatory distributions.</u>** Under current law, required minimum distribution ("RMD") rules generally mandate that retirement plan distributions start at age 72 (increased from age 70 ½ for 2020). The bill would increase the RMD age from 72 to 75, effective for distributions required to be made after December 31, 2020, with respect to individuals who attain age 72 after such date. ASHA has historically supported loosening of the RMD rules because those changes will result in more retirement assets being available to cover costs later in life.
- **<u>Exception from RMD rules when retirement savings do not exceed $100,000</u>**. The bill would provide that 401(k) and other defined contribution plan participants and IRA owners are not required to comply with the lifetime RMD rules if they have a total balance in their defined contribution plans and IRAs of not more than $100,000 (indexed) on December 31 of the year before they attain 75.
- **<u>Reducing 50% penalty tax.</u>** Failures by an individual to take minimum distributions are subject to a 50% excise tax. The bill reduces that tax to 25%. If a failure to take a required minimum distribution from an IRA is corrected in a timely manner (as defined under the bill), the excise tax on the failure is further reduced from 25% to 10%.

<u>Expanding Coverage and Increasing Retirement Savings</u>

- **Enhanced Saver's Credit**. Under current law, an additional Saver's Credit is provided for qualifying individuals. However, a meaningful credit is generally only available to those with very low income (e.g., a 50% tax credit on up to $2,000 of retirement savings is only available to couples with income that does not exceed $39,000; single individuals are subject to much lower income eligibility limits). The bill would provide the credit on up to $3,000 of retirement contributions and would provide the full 50% tax credit to married couples with up to $80,000 of income, and a phased-out for those with incomes up to $100,000.

- **Greater catch-up contributions for individuals who have attained age 60**. Today, employees who have attained age 50 are permitted to make catch-up contributions under a retirement plan in excess of the otherwise applicable limits. The limit on catch-up contributions for 2020 is generally $6,500. The bill would increase this limit to $10,000 for individuals who have attained age 60. In addition, the existing $1,000 of IRA catch-up contributions allowed for individuals who have attained age 50 would be doubled and indexed for future inflation.
- **Requiring automatic enrollment in *new* retirement plans.** Under the bill, almost all new 401(k) and similar plans would be required to include (1) automatic enrollment at a minimum of 3% and (2) automatic escalation at one percentage point per year up to 10%. This would be effective for 2022, and plans in existence on the effective date would be grandfathered. Unlike previous proposals with an employer mandate, this provision would not require any employer to have a plan, but would rather simply apply to employers that decide to adopt a new plan.
- **Small business incentives to offer retirement plans**. The three-year small business start-up credit is currently 50% of administrative costs, up to an annual cap that can be as much as $5,000. Under the bill, the 50% credit would be increased to 100% for employers with up to 50 employees. This full additional credit would be limited to employers with 50 or fewer employees, and phased out for employers with between 51 and 100 employees. The credit would be 100% in the first and second years, 75% in the third year, 50% in the fourth year, 25% in the fifth year, and zero thereafter. An additional credit would be provided equal to the applicable percentage of the amount contributed by the employer on behalf of employees, up to a per-employee cap of $1,000.
- **Small immediate financial incentives for contributing to a plan.** Under current law, immediate incentives for making 401(k) contributions, like $25 gift cards, are prohibited by the rule generally prohibiting any incentives other than matching contributions. Under the bill, de minimis financial incentives would be permitted under 401(k) and 403(b) plans.
- **Miscellaneous Changes to Reduce Administrative Burdens**. The bill also makes a variety of changes that could ease retirement plan administration. For example, it would allow plans a grace period to correct, without penalty, reasonable errors in administering automatic enrollment and automatic escalation features; eliminate barriers to the availability of life annuities in plans and IRAs that arise under current law due to an outdated actuarial test in the RMD regulations; and streamline the existing Qualifying Longevity Annuity rules, that generally allow retirement plan annuities to provide additional payments at or near the end of an individual's life expectancy.