Options and Deadlines for Retirement Plan Implementation in 2021

Important Year-End Deadlines and Candidate Profiles

SECURE Act made a number of changes that impact timing for new plan set ups and modifying existing retirement plan programs. Some rules, however, remain unchanged. We summarized these important dates for new plan implementation, changes to existing savings programs, and candidate profiles below:

Plan Setup – *New Plans*

Due Date	Action
October 1	• Establish **a new safe harbor 401(k) plan for 2021.** **NOTE:** The salary deferral feature must be effective for at least three months for a new 401(k) plan to take advantage of the safe harbor design. This requirement did not go away with the passage of the SECURE Act.
December 1	• Add a safe harbor match to an existing 401(k) plan for **2022.**
December 31	• Establish a qualified retirement plan (401(k), profit sharing, defined benefit, cash balance, etc.) for the calendar year, the plan documents must be signed on or before December 31. **NOTE**: SECURE Act extended the new plan adoption deadline from the last day of plan year up to the tax return due date of the employer, including extensions, similar to SEP IRAs. *This rule applies **only to employer contributions**; salary deferral provisions will have to be in place before a plan can accept salary deferral contributions.* From practical point of view, it's likely that plans will have to be established at some point before the un-extended Form 5500 deadline (so it can be timely extended by filing Form 5558) and before the minimum funding deadline applicable to pension plans. IRS guidance is required.

Amendments – *Existing Plans*

Due Date	Action Required
October 1	• **Add a new safe harbor 401(k) feature** to an existing profit-sharing plan **for 2021.** **NOTE:** The salary deferral feature must be effective for at least three months for a new 401(k) plan to take advantage of the safe harbor design. This requirement did not go away with the passage of the SECURE Act.
November 1	• **When replacing a SIMPLE IRA** with another retirement plan in 2022, employees need to be notified of the SIMPLE IRA termination effective 12/31/2021 prior to November 2, start of the 60-day election period.
December 1	• **Add a 3% safe harbor contribution feature** to an existing 401(k) plan for **2021**. *This option is not available for a safe harbor match feature.* • **Add a safe harbor match** to a 401(k) plan for **2022.** • **Change a safe harbor type** for **2022.** **NOTE:** For employers who miss the December 1 deadline to add the 3% safe harbor contribution feature to their 401(k) plan for the current year, the SECURE Act offers a new option. They can elect a safe harbor 401(k) status retroactive to January 1, 2021, if they (1) increase the safe harbor contribution from 3% to 4%, and (2) sign a plan amendment to that effect by December 31, 2022. This option is not available for a safe harbor match feature.
December 31	• To adopt **discretionary amendments** for the qualified plans for **2021.**

The Five Client Types Who Need Your Help

1. **Has No Plan:** Whether this client is a one-person shop or has employees, a variety of qualified plan options, ranging from a 401(k) to a profit sharing to a defined benefit/cash balance or any combination, may improve his or her tax situation by providing a deduction between $19,500 and $100,000+.
    - **The key variable** to identify in this situation is the client's surplus income**,** which can be converted into pre-tax dollars and directed into a qualified plan.

2. **Has a Plan but Needs a Higher Deduction:** This client is already funding a plan but needs to increase the deductible contribution by activating a profit-sharing feature of their 401(k) plan or adding a layer of a defined benefit or a cash balance plan. As a rule of thumb, for a 401(k) profit-sharing plan, you would look for contributions of up to $58,000 per year. For a defined benefit/cash balance plan, given additional complexities and administrative costs, a good starting point may be $75,000 per year or $20,000–$25,000 above the 401(k) profit-sharing plan's funding limit.
    - **The key variable** in this situation is the contribution amount, in addition to what is currently funded.
3. **Has a Secondary Source of Income:** This client is an employee but also does some independent contracting work, serves as a member of a board of directors, receives royalty payments from books written or has a hobby that generates surplus income. All of this income may be used to fund a retirement plan, such as a defined benefit or a cash balance plan, potentially reducing or even eliminating taxable income from that business entity.
    - **The key variables** to identify in this scenario are income level, reliability of cash flow and a savings goal.
4. **Sponsors a SEP or SIMPLE IRA:** This client has an IRA-based retirement plan that was established due to administrative ease, low cost or, perhaps, because other options were not appropriate at the time. The frequent downfall of these arrangements is generally twofold: it either limits contribution potential (higher than necessary income tax) or comes with a high cost of benefits for employees of the business (inefficient distribution of benefits). In other words, a free plan may cost a client thousands of dollars in unnecessary taxes.
    - **Key variables** to consider in this situation are contribution objectives, current contribution level and, when applicable, total workforce.
5. **Works as an Independent Contractor:** By law, this client is not eligible to participate in plans sponsored by companies where the contract work is done. As a result, individuals in this role often end up limiting their funding to an IRA or an IRA-based retirement plan, forgoing opportunities to reduce their taxable income and save for retirement in a tax-efficient vehicle.
    - **Key variables** to consider in this scenario are surplus income, funding objectives, reliability of income stream and need for flexibility in funding.

We're Here to Help

Retirement Plan Solutions is excited to partner with you in making a positive difference in your clients' and prospects' financial lives. The profiles identified above highlight several of the immediate planning opportunities.

Your Retirement Plan Solutions consultants are available to assist. We will help with discovery, qualifying opportunities, plan design and timely implementation. Please call 844.881.PLAN, email retirementplans@cetera.com or start a conversation here.

NOTE: Individual results will vary based on plan design, census data, earnings history, and governing regulations. The illustrations provided are for informational and educational purposes. This article is not intended to provide, and should not be construed as ERISA, tax, investment, legal or financial advice or guidance.

Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty.

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