Help SECURE a better future for your clients
Years in the planning, the **SECURE Act** is finally here

The **Setting Every Community Up for Retirement Enhancement (SECURE) Act** is the most significant retirement reform legislation to be passed in over a decade. The Act is intended to address a serious retirement savings gap in the U.S., putting into effect some 29 provisions designed to strengthen retirement security in different ways.

Many of these provisions went into effect on January 1, 2020. The full extent of some may not be realized for a few years. But now is the time to act.

To help you serve your clients, this brochure addresses what we believe are key provisions for retirement plan advisors, particularly those who target the small-business market.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.
# The SECURE Act – What you need to know

| Provision                                      | Details                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Our perspective                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
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| Increased startup credit for small employer plans | • Small businesses have long been eligible to receive a federal tax credit to offset 50% of the expenses the employer paid in connection with a new retirement plan. The tax credit can be used for up to three years after the plan’s launch.  
  • The $500 cap on the startup plan credit has been increased to the greater of (1) $500 or (2) the lesser of (a) $250 for each non-highly compensated employee who is eligible to participate in the plan or (b) $5,000.  
  Applies to taxable years beginning after December 31, 2019.                                                                                     | This represents a significant increase in the startup credit and can be an attractive selling point for small-business prospects, many of whom may not have started a plan due to concerns over cost.  
  Be aware that the startup tax credit only covers the employer’s out-of-pocket costs. It doesn’t apply to expenses paid through plan assets or mutual fund expense ratios.  
  For that reason, the advantages for SIMPLE and SEP IRAs may be limited as these plans do not ordinarily have material expenses that would qualify for the credit.  
  However, we see ample opportunity for 401(k) and SIMPLE IRA Plus plans that choose an institutional share class. The credit could be used to offset ordinary and necessary business expenses in connection with the plan such as advisor compensation, TPA costs, recordkeeping, etc. SIMPLE IRA Plus combines features and benefits of both 401(k)s and SIMPLE IRAs and is only available from Capital Group, home of American Funds.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| New credit for automatic enrollment            | • Any employer with up to 100 employees is eligible for a credit of $500 per year for up to three years, beginning with the first taxable year for which the employer includes automatic enrollment in a qualified employer plan.  
  Applies to taxable years beginning after December 31, 2019.                                                                                   | This credit is available for SIMPLE and SEP IRAs, as well as SIMPLE IRA Plus and 401(k) plans. It is available in addition to any startup credit the plan may receive.  
  At present, there are no rules for setting the automatic enrollment rate. But remember, what matters most are participant outcomes. Help your clients determine a contribution level that will enable their employees to pursue their retirement goals. For a SIMPLE IRA, that may be setting automatic enrollment at the maximum program match, or 3%.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Open MEPs/PEPs                                  | • Unrelated employers, regardless of industry, can now participate in a MEP (multiple employer plan), called a PEP or pooled employer plan in the SECURE Act, that would be treated as a single plan for ERISA purposes.  
  • A PEP would file one Form 5500 (subject to special filing requirements) and need a single plan audit.  
  • The sponsor or “pooled plan provider” may be a financial institution (e.g., mutual fund company, recordkeeper, TPA or broker dealer) – serving as a named fiduciary and plan administrator.  
  • The Act also eliminates a previous “One Bad Apple” rule that disqualified the entire PEP for violation of qualification requirements by a single employer.  
  Applies to plan years beginning after December 31, 2020.                                                                                      | The SECURE Act overrides the DOL’s longstanding position that employers without a common bond cannot participate in a single plan. Previously, only employers using the same professional employer organization (PEO) or participating in the same industry association could form a multiple employer plan.  
  A selling point for PEPs is the outsourcing of fiduciary and administrative responsibility. We expect PEPs to involve 3(38) and 3(16) fiduciary services. The legislation does not provide any special relief from ERISA’s conflict of interest/prohibited transaction rules.  
  Given their structure, it is not clear that PEPs will deliver a pricing advantage relative to the many low-cost single employer plan solutions already in the market. There are also concerns about level of service and ability to customize plan menus to the needs of each company’s workforce.  
  We continue to explore potential opportunities with PEPs. In the meantime, you can continue to offer your clients high-value, low-cost services through a more traditional program such as a 401(k), SIMPLE IRA, SEP IRA, payroll deduct IRA or SIMPLE IRA Plus, all of which are available through Capital Group, home of American Funds.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
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<td><strong>Fiduciary safe harbor for annuities</strong></td>
<td>• Plan fiduciaries may now rely on written representations from insurers regarding their status under state insurance law for purposes of considering the insurers’ financial capabilities.</td>
<td>Employers have been reluctant to add annuities to their retirement plan for fear of being sued if an insurer is unable to pay benefits due to insolvency. This provision essentially protects plan fiduciaries from such claims. However, it is not a safe harbor from other types of claims (e.g., excessive costs, inappropriate investment option for plan participants, etc.) Prior law included a safe harbor but also required an investigation into the claims-paying ability of the insurer. It is unclear what effect this provision will have on employers’ decisions to include annuities in their retirement plan. If your clients wish to, they should consider the bigger picture of value provided by other features/benefits and attributes of the insurer.</td>
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<td><strong>Portability of lifetime income investments</strong></td>
<td>• Participants in DC plans are now allowed, without regard to any in-service withdrawal restriction, to take an in-service distribution of a lifetime income investment, if the investment is no longer authorized to be held under the plan. The distribution generally must be made via a direct rollover to an IRA. Applies to plan years beginning after December 31, 2020.</td>
<td>This change is meant to make it easier for a plan to eliminate an annuity product, if it so chooses, without adversely affecting existing holders – allowing them to roll the product into an IRA. Previously, a plan could not eliminate an option without affecting existing investors in the lifetime income option (i.e., they would lose any economic benefit they had purchased). In addition to a new safe harbor for annuities (see the Fiduciary safe harbor for annuities provision), this provision eliminates a barrier to the adoption of annuities in retirement plans, though obstacles remain including the perception that annuities are expensive.</td>
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<td><strong>Lifetime income disclosures</strong></td>
<td>• DC plans must now provide lifetime income disclosure to participants at least once every 12 months. This disclosure should illustrate the amount of income the account could generate if the total accrued benefits under the plan were used to provide lifetime income through (1) a qualified joint and survivor annuity or (2) a single life annuity. Not effective until 12 months after the DOL issues guidance.</td>
<td>This provision is meant to encourage participants to focus less on a subjective number as a retirement savings goal and more on how their savings will actually address their income needs throughout retirement. Many providers offer calculators designed for this purpose – for example, participants in a PlanPremier 401(k), available through Capital Group, can access an online tool that shows their personal estimated monthly and annual income in retirement. It will take some time for the DOL to figure out the application of this provision and address the many assumptions involved (e.g., future contributions, interest rates, annuity purchase assumptions, etc.).</td>
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<td><strong>Penalty-free withdrawals for birth or adoption</strong></td>
<td>• Participants can now take in-service withdrawals in connection with the birth or adoption of a child – a new exemption from the existing 10% penalty tax of 72(t) for early withdrawals from retirement accounts. Withdrawals are limited to $5,000 per birth or adoption. This change applies to distributions made after December 31, 2019.</td>
<td>Plan sponsors and participants will probably be happy to hear about this development. Be sure to tell your clients that while these distributions are not subject to penalty, they will be treated as taxable income. The distribution must be taken within one year of the child’s birth or the adoption becoming finalized.</td>
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For your retirement plan clients
## For your wealth management clients

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<td><strong>New rule for required minimum distributions (RMDs)</strong></td>
<td>• Savers in IRAs and retirement plans who reach age 70½ in 2020 or later can now wait until age 72 to start taking their RMDs. Applies to distributions required to be made after December 31, 2019.</td>
<td>The 70½ age trigger has long confused people. And conditions of this new provision may unintentionally add to the confusion. Only those who reach 70½ in 2020 or later can wait until age 72 to start taking distributions. Those who turned 70½ in 2019 or earlier will be required to start taking RMDs according to the previous timeline — at age 70½. Chances are, your clients are depending on you or your firm to help them with distributions. The good news about this is that clients tend to follow the RMD rules to the letter. So a person who can now wait until age 72 before taking distributions may experience additional growth in their account balance over 1½ years, if only through compounding. Connect with your clients as soon as possible to determine how this provision may affect them.</td>
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<td><strong>Contribute to a traditional IRA past age 70½</strong></td>
<td>• The limit prohibiting individuals who have reached the age of 70½ from making non-rollover contributions to traditional IRAs has been repealed. Applies to contributions made for taxable years beginning after December 31, 2019.</td>
<td>These contributions will be permitted as long as employment income is still being earned. Keep in mind, a client who turned 70½ in 2019 cannot make a contribution between January 1 and April 15, 2020, for the 2019 tax year. Note that the Act prevents an individual from distributing as QCDs any deductible contributions made to traditional IRAs after the individual reaches age 70½. In other words, IRA contributions made after age 70½ cannot also be used as QCDs.</td>
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<td><strong>New 10-year rule on stretch RMDs</strong></td>
<td>The Act changes the post-death RMD rules that apply to natural persons who inherit retirement accounts. Unless the individual is an “eligible designated beneficiary,” the entire account must be distributed by the end of the tenth calendar year following the year of the account owner’s death. The beneficiary can no longer take distributions over his or her lifetime. Notably, an eligible designated beneficiary can still take distributions over his or her lifetime. An eligible designated beneficiary is defined as: • the surviving spouse • a child (of the original account owner) who has not reached the age of majority (but only until they reach that age) • someone who is disabled or chronically ill • any other person who is not more than 10 years younger than the deceased account owner Applies only to deaths after December 31, 2019.</td>
<td>This will likely be a big concern for clients who are planning on passing larger account balances to family members upon their death. It could affect who they choose as a beneficiary since this provision could push bigger distributions during the beneficiary’s prime working years when they may be in a higher tax bracket. If it is an issue for your clients, you may suggest they work with an estate plan attorney to consider alternative options such as naming a charitable remainder trust as the post-death beneficiary of the account. The new provision will also be of critical interest to beneficiaries about to receive an inheritance. The 10-year distribution requirement may also have affected existing trust and beneficiary rules set up in individual accounts. It’s important to revisit these designations as soon as possible to ensure they’re in accordance with the wishes of your clients.</td>
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### For 529 plans

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| Expanded withdrawals for higher education| • 529 plans may now be used to pay for certain student loan expenses up to a $10,000 lifetime maximum as well as certain apprenticeship program expenses (books, supplies, equipment, etc.).  
• Also, up to $10,000 can be used to pay down the student loan debt of a beneficiary and each of a beneficiary’s siblings.  
Applies retroactively to distributions made after December 31, 2018. | This is the first time that student loan repayments are eligible for tax-free withdrawals from a 529 plan.  
If withdrawals are used for purposes other than qualified education expenses, the earnings will be subject to a 10% federal tax penalty in addition to federal and, if applicable, state income tax.  
States take different approaches to the income tax treatment of withdrawals.  
A potential benefit is that grandparents who want to help pay for a grandchild’s college education can do so to a certain degree without affecting the student’s eligibility for financial aid. Instead of paying tuition directly from a 529 funded by the grandparent, which may affect the student’s ability to qualify for financial aid, the grandparent can wait and use the funds to help repay the student’s loans. |

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Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

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