FEDERAL PROVISIONS ENACTED TO ADDRESS THE COVERAGE GAP

SEP IRA

A SEP IRA ("Simplified Employee Pension") allows employers to make tax-deductible contributions to an employee IRA (up to the lesser of 25 percent of salary or $57,000 per year). Unlike most employer-sponsored plans, employees are not eligible to make their own contributions to SEPs. Employers must make the same percentage contribution for all employees in a given year, but are not required to contribute every year. This plan may be attractive for self-employed workers who want to contribute more to their own retirement than 401(k)s allow, or for small employers that are looking for a plan that is easy to administer. SEPs have fewer filing requirements than a 401(k), and they allow for flexible contribution amounts year-to-year.

SIMPLE

A SIMPLE ("Savings Incentive Match Plan for Employees") can be either an IRA or a 401(k).

A SIMPLE IRA is a type of traditional IRA that allows employers to make tax-deductible contributions to an employee's account on either a matching or non-elective basis. Employees may contribute up to $13,500 per year, and employers can either match these contributions up to 3 percent of salary or provide a flat contribution of 2 percent of salary for all employees. Employers receive an annual tax credit for auto-enrolling employees in a SIMPLE, which also has fewer administrative requirements than a 401(k). The SIMPLE is available to employers with 100 or fewer employees and the self-employed. SIMPLEs have separate contribution limits from other IRAs, so employees can still contribute to a traditional or Roth IRA that they set up on their own in addition to the SIMPLE.

A SIMPLE 401(k) is generally similar to a SIMPLE IRA, with a few differences that reflect its relationship to a traditional 401(k) plan. The contribution limits for employees under the two types of SIMPLE plans are the same, as are the provisions on employer contributions, with one exception. Under a SIMPLE 401(k), both non-elective and matching employer contributions may only apply to compensation up to $285,000. Under a SIMPLE IRA, only non-elective contributions are subject to this cap. Another difference is that employees may borrow from their SIMPLE 401(k), which is not allowed for SIMPLE IRAs. Finally, SIMPLE 401(k)s have somewhat more extensive filing requirements.

Small Business Tax Credit

Employers with 100 or fewer employees may receive a tax credit of $500 to help offset the costs of establishing a retirement plan.

myRA

The myRA was a type of Roth IRA administered by the Treasury from 2014-2017 that allowed employee, but not employer, contributions. Employees could contribute any amount up to the annual IRA limit with no maintenance fees. Contributions were invested in Treasury securities until account balances reached $15,000, when they were to be rolled over into private Roth IRA accounts. This plan offered employers an extremely low-cost way to provide a "starter" retirement saving option for their workers, but take-up was very limited.

MEP

A MEP ("Multiple Employer Plan"), which can be either a defined benefit or defined contribution plan, is administered by a sponsor on behalf of multiple employers as opposed to the traditional single employer sponsor. These employers can be related to one another via mission or interest as in a "closed" MEP, geographically connected as in an "association retirement plan," or completely unrelated as in an "open" MEP (this latter provision was added through the SECURE Act, which became effective in January 2020). Depending on the structure of the plan (DC or DB), contribution limits may vary – for DC MEPs, contributions count towards an individual's 401(k) contribution limit. However, the primary benefit of a MEP is that individual employers have no fiduciary duty. Under the SECURE Act, a MEP also shields individual employers from noncompliance on the part of other employers in the plan (revoking what was known as the "one bad apple" provision).

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For more information on closing the coverage gap, visit:
https://crr.bc.edu/special-projects/closing-the-coverage-gap/