

## — SECURE 2.0

# SECURE 2.0 Changes Catch-Up Contribution Rules

Under current law, employers may allow participants age 50 and older to make catch-up contributions on a pretax or Roth basis. SECURE 2.0 requires that all catch-up contributions for a participant whose FICA wages for the prior year exceed \$145,000 (indexed) be made on a Roth basis.

Although this rule technically becomes effective beginning January 1, 2024, the IRS has issued guidance that effectively delays this date to January 1, 2026. During this two-year delay, catch-up contributions will be treated as satisfying the requirements under SECURE 2.0, whether or not they are designated as Roth contributions.

## Affected Plan Types

While this provision affects participants in 401(k) plans, 403(b) plans, and governmental 457(b) plans, it does not apply to the special catch-up contributions permitted under 403(b) and governmental 457(b) plans.

This provision does not apply to SEP plans or SIMPLE IRA plans.

## Possible Plan Design Implications

Many employers that offer catch-up contributions will choose to comply with the SECURE 2.0 catch-up requirements in part by adding a general Roth feature to their plan. Others may consider removing catch-up contributions from their plans as a means of avoiding having to comply, though that is not expected to be a common choice. Additional plan designs, such as offering Roth for catch-up contributions only or limiting catch-up contributions to those under the \$145,000 wage threshold, may also be available.

This new rule will require changes in plan operations and additional communication with service providers so that contributions can be properly categorized. Participants will need to be informed of the changes as well. Plan design decisions should generally be made after the IRS issues final guidance.

## Additional Guidance

There are several outstanding questions surrounding the Roth catch-up contribution requirement. During the two-year delay described earlier, the IRS will be developing additional guidance designed to help employers, recordkeepers, third-party administrators, and payroll providers to effectively comply with this SECURE 2.0 provision.

