SECURE 2.0 Act: Catch-Up Contributions

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On August 25, 2023, the IRS released Notice 2023-62. This guidance addressed the implementation concerns related to the SECURE 2.0 Act (Section 603) which required that catch-up contributions for participants with FICA wages of more than $145,000 (during the prior calendar year from the employer maintaining the plan) must be made on a Roth (after tax) basis beginning January 1, 2024. The notice reaffirmed intent to add this requirement but provided a 2-year administrative delay until January 1, 2026 for implementation. We addressed this in our August 4, 2023 newsletter and are happy that the guidance we expected was issued so timely.

The release is great news as it will help taxpayers and providers transition smoothly into the new Roth catch-up requirements. It also confirms that catch-up contributions will be permitted for everyone in 2024 as well as in all other years despite the technical statutory language that had raised uncertainty about catch-up availability in 2024. The guidance announced the "2-year administrative transition period" for implementing the requirement basically delaying the effective date of the Roth catch-up requirement until January 1, 2026. It also allows plans that do not currently permit Roth contributions to continue allowing pre-tax catch-up contributions during the transition period.

While not official guidance, the notice also hints at the intention of the IRS concerning Roth catch-up contributions for partners or self-employed individuals who do not have FICA wages during the preceding calendar year from the employer sponsoring the plan. In these cases, it appears that the requirements will not apply. They will be able to continue making the catch-up contributions as pre-tax.

The IRS also hinted that a plan administrator/employer would be permitted to treat a participant's election to make catch-up contributions on a pre-tax basis as a "deemed" election to make catch-up contributions on a Roth basis without a separate election.

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Lastly, in the case of Multiple Employer Plans as well as other plans maintained by more than one employer, the IRS hinted that the plans will not be required to aggregate wages from multiple participating employers when applying the Roth catch-up contribution requirement. FICA wages must be reviewed on an employer-by-employer basis. For example, if a participant earned $125,000 from one participating employer and $120,000 from another participating employer, the Roth catch-up contribution requirement would not apply to that participant, even though the aggregate of wages earned from all participating employers under the plan exceeded $145,000. This means that a participant could make catch-up contributions on a pre-tax basis on compensation of $145,000 or less from any individual participating employer.

Although Notice 2023-62 offers some relief for plan sponsors and administrators, there is still a lot to do before the January 1, 2026 implementation date. We are waiting on additional guidance to answer many other SECURE 2.0 Act questions. We will keep you informed as more guidance is released. Please contact us if you have any questions or concerns.

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