

Get Ahead Early

New federal rules mean some employees will no longer have a pre-tax option for catch-up contributions, making early planning critical for employers BY CHRISTOPHER J. CIMINERA, CPA, QKA®

THE SECURE 2.0 ACT, in Section 603, has changed the way certain retirement plan participants can elect to make catch-up contributions. The change mandates that highly paid individuals — those with FICA wages in the prior year of \$150,000 or more — who are age 50 or older contribute catch-up amounts in Roth dollars. For plan sponsors and participants alike, the change affects how catch-up dollars must be withheld, tracked, and reported moving forward.

Prior to the SECURE 2.0 Act, participants could contribute catch-up contributions as pre-tax deferrals or as Roth dollars, if the plan permitted Roth contributions. Section 603 requires that catch-up eligible, highly paid individuals contribute catch-up amounts on a Roth basis. The legislative change was enacted by Congress as a revenue-raising provision to help pay for other benefits in the Act.

While the rule is clear in concept, the timeline for implementation has shifted to allow plan sponsors time to adjust. Initially, Section 603 was effective for years beginning after Dec. 31, 2023. On Aug. 23, 2023, the IRS issued Notice 2023-62, which provided a two-year administrative transition period related to this section. As a result, the requirement is effective for plan years beginning after Dec. 1, 2025.

401(k), 403(b), and 457(b) plans are covered under this requirement. Section 603 does not apply to SEP or SIMPLE IRA plans.

Even with the delay, compliance will require coordination across payroll systems, plan recordkeepers, and participant elections. On its face, the requirement is straightforward, and that's likely what Congress assumed. Any highly paid individual who is age 50 or older and electing a catch-up contribution must have it applied as a Roth source. In

practice, however, many administrative issues may arise during the first year of implementation. For example, an individual may make elective deferrals to two or more plans during a taxable year, including plans with unrelated employers. In that case, Notice 2023-62 provides that elective deferrals are aggregated for determining whether the individual's elective deferral limit is exceeded.

The IRS also indicated additional guidance is coming.

That guidance is expected to clarify that the requirement will not apply to eligible participants who had no FICA wages from the plan sponsor in the prior calendar year. It is also expected to confirm that plan sponsors may treat a participant's pre-tax catch-up election as an election to make designated Roth contributions. Finally, it will address plans maintained by more than one employer, including multiemployer plans, and confirm that FICA

wages from one participating employer would not be aggregated with wages from another when determining whether a participant is a highly paid individual.

Section 603 is now in place, so plan sponsors should work with their payroll provider and plan administrators to ensure processes are in place to implement the regulation. Plan documents must be amended by Dec. 31, 2026. ■



Christopher J. Ciminera, CPA, QKA®, is a principal of accounting and auditing and retirement plan services at Belfint, Lyons & Shuman, CPAs.

