FIRST AMERICAN BANK

SECURE 2.0 – Roth Catchup Contributions

The SECURE 2.0 legislation passed at the end of 2022 included a variety of provisions that impact both new and existing retirement plans. One of those provisions relates to 401(k) catchup contributions for participants who are 50 or older. Effective January 1, 2024, catchup contributions must be made as Roth if the participant has over $145,000 of FICA wages during 2023. There have been recent calls to delay the effective date of the provision to provide payroll companies and recordkeeping providers with more time to update their systems. We recommend moving forward assuming the change will need to be made as a delay is not certain.

The new Roth catchup requirement for those earning over $145,000 is expected to increase tax revenue to pay for other provisions of the SECURE 2.0 legislation. Although higher earners will lose the tax benefits associated with making pre-tax contributions, there are benefits to having money in both taxable and non-taxable sources when structuring withdrawals in retirement as well as the tax-free withdrawal of earnings when qualified Roth distributions are taken.

What happens if your plan does not include Roth as an option? If a 401(k) plan does not have Roth features, participants who earn over $145,000 of FICA wages in 2023 will not be able to make catchup contributions in 2024 or beyond. Your plan can be amended to incorporate the Roth features and preserve the ability for participants to make catchup contributions.

Do I have to amend the plan to include Roth if nobody is going to use the provisions? The answer to this is uncertain and one of the reasons there are calls to delay the effective date. The legislation provides that employees be given the option to make pre-tax or Roth contributions. While we believe it was intended to apply to the catchup contributions, it can be interpreted to apply to all 401(k) contributions.

How does the Roth catchup requirement apply if I have net income from self-employment over $145,000? As written, the legislation applies only to participants with FICA wages. Those who are self-employed do not have FICA wages and can still make pre-tax catchup contributions even if their compensation for plan purposes is over $145,000. Technical corrections and/or future guidance may be issued to change this.

If my plan already has Roth contributions, do I need to do anything? Plan Sponsors will need to work with their payroll provider to determine if any updates are needed to prepare for this change. After the final payroll is processed for 2023, we recommend reviewing the FICA wages for 2023 to determine which employees will be required to make catchup contributions as Roth. Once determined, work with your payroll provider to ensure the employee is set up for the proper contribution types for the year. We also recommend monitoring the contributions throughout the year to ensure they are being made properly.

If you have any questions on the Roth catchup contribution requirements or the SECURE 2.0 legislation, please contact your Relationship Manager.