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SECURE 2.0 – What You Need to Know
Catch-Up Contribution Rules are Changing

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, passed in 2019, included numerous changes to the rules governing retirement plans with the goal of increasing access and savings for American workers. Building upon the success of SECURE, SECURE 2.0 was introduced to further enhance retirement security. SECURE 2.0 included provisions that will change how catch-up contributions work for many employees and we will describe those changes below.

The Introduction of Catch-Up Contributions

Introduced as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), Internal Revenue Code Section 414(v) paved the way for catch-up contributions in employer-sponsored retirement plans, including 401(k) plans, 403(b) plans, and certain 457 plans. These catch-up contributions were designed to address the retirement savings gap for individuals aged 50 and older, recognizing that they may have limited time to save for retirement.

The original provisions allowed individuals aged 50 and above to make additional contributions to their retirement plans beyond the standard contribution limits. These additional contributions were intended to provide a financial incentive for older workers to save more aggressively for retirement during their peak earning years. The first year this was available was 2002 and the maximum catch-up contribution at that time was $1,000. This limit has increased with cost-of-living adjustments and is now $7,500 in 2023.

Additional Catch-Up Under SECURE 2.0

There were two major changes to the catch-up contribution rules under SECURE 2.0. The first change, which is scheduled to be effective January 1, 2025, is an increase in the catch-up contribution for participants ages 60 to 63. Why was this age range selected instead of allowing an increase for participants aged 60 to 65, or all participants over the age 60? You will need to ask your local representative in Congress because we have no idea.

Individuals in this age range will be able to make catch-up contributions up to the greater of $10,000 or 150% of the catch-up contribution limit for the year. Using the 2023 catch-up contribution limit of $7,500 as an example, a participant between the ages of 60 and 63 would be able to make a catch-up contribution of $11,250 (150% of $7,500) under this new rule. While the $10,000 limit is indexed and will increase with cost-of-living adjustments, it is likely that 150% of the standard catch-up limit will continue to be greater than this indexed dollar cap.

Mandatory Roth Catch-Up Under SECURE 2.0

The second significant change is the treatment of catch-up contributions as Roth instead of pre-tax salary deferrals. Initially slated to be effective on January 1, 2024, the enactment of this change has been delayed until January 1, 2026, due to some lingering technical questions that must be addressed. In general, the rule states that anyone who earned over $145,000 in the prior year will only be permitted to make catch-up contributions as Roth. The $145,000 compensation limit will be indexed to inflation so it will increase over time.

All 401(k) plans that have employees at this compensation level who are age 50 or older will be required to either:

1. Allow Roth employee contributions; or
2. Disallow catch-up contributions.

While many 401(k) plans already allow Roth contributions, not all plans have these provisions. While we expect all plans will include Roth provisions as opposed to eliminating catch-up contributions, the decision will need to be made by the plan sponsor. We will be contacting our clients that do not currently permit Roth contributions in a separate communication.

Should you have any questions about these rules or the impact on your plan, please contact your Benchmark RPS representative at your convenience.