What's New in Washington: SECURE 2.0's Age 60-63 Super Catch-Ups Begin January 1st

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The gift that keeps giving: SECURE 2.0! Effective January 1, 2025, plans may permit participants aged 60-63 to make catch-up contributions over the regular catch-up limit.

The rule: Plans have long been permitted to offer participants aged 50 and older the opportunity to make catch-up contributions that exceed the general statutory limit on elective deferrals. For 2024, for example, a participant aged 50 or older could make an annual catch-up contribution of up to $7,500 over the general annual deferral limit of $23,000.

Beginning January 1, 2025—and thanks to SECURE 2.0—participants aged 60 to 63 may now be given the option to make *additional* catch-up contributions of up to $3,750 per year (meaning that they could make total catch-up contributions of up to $11,250 over the general annual deferral limit).

Optional or mandatory?: There's been some discussion in the industry about whether this new "super" 60-63 catch-up limit is optional for those plans that already permit the general age-50 catch-up option. Regulations written before SECURE 2.0 seem to suggest that if a plan offers catch-up contributions, it must permit participants to defer up to the maximum catch-up limit. Some practitioners have interpreted this to mean that plans offering age 50 catch-ups must also offer age 60-63 catch-ups (because the age 60-63 catch-up is merely an increase in the maximum catch-up limit). Others disagree—noting that the regulations were written before SECURE 2.0 and don't contemplate multiple types of catch-up contributions. While the IRS hasn't issued formal guidance on this question, language in the IRS's 2024 List of Required Modifications (guidance for providers who write preapproved plan documents) can be interpreted as suggesting that plan sponsors can choose to offer one form of catch-up contributions and not the other. Because there are arguments on both sides, plan sponsors electing to offer only the age-50 catch-up (and not the super catch-up) should consult with ERISA counsel to ensure they are comfortable with that position.

Regardless of the decision that is made, plan sponsors should work with their TPA to ensure correct administration and ensure that all participant notices are correct (including the new catch-up or not!). Plan sponsors also may need to communicate with their payroll vendor to confirm that implementation of the age 60-63 catch-up is feasible.

Best Practices:
Year-End Information Collection

It's that time of year — time to get out your files, your pens, and your reading glasses to fill out your TPA's year-end information collection packet for 2024. In this month's article, we reached out to some of the best TPAs in the business to ask what plan sponsors should keep in mind as they complete the year-end information collection packet:

- Remember: Your TPA's work can only be as good as the plan data you provide. Take the time to go through the information requested in the information collection carefully and thoroughly to reduce the risk of errors and oversights. If you don't understand a question, ask now to ensure your answer is accurate — taking this time now can significantly reduce the chance of costly compliance issues in the future!

- Don't censor data related to pay and plan compensation. Each plan defines "compensation" differently, and your TPA will be asking questions geared at your plan specifically. TPAs will often ask for a payroll report that shows gross compensation broken out into all the various payroll reporting categories (ex: regular pay, bonus, group term life, severance, deferrals, etc.) to confirm that the correct amount of compensation has been used in plan operations. It is critical that you provide a complete report — providing only pay you think is eligible or censoring the data in any way can result in very costly errors.

- Provide information for *all* employees, even if they only worked for one hour and even if you think they are excluded from plan eligibility. This allows proper tracking of eligibility and other relevant plan provisions.

- Provide complete data regarding employees age and service, which are important for eligibility, contributions, and vesting. This includes hours of service (particularly now that the long-time part-time employee rules are in play), birth dates, hire dates, termination dates, and flagging any rehire dates.

- Inform your TPA of any structural or ownership changes, even if you think they shouldn't impact whether the company is aggregated with any other business entities. This could also include any other business changes, such as whether you changed your business entity from a partnership or sole proprietorship to an S- or C-corporation. Rules regarding related entities are complex and even small, seemingly insignificant changes can be important.

- And — if you have any questions, feel free to reach out to your TPA. Asking questions early in the process can prevent larger issues down the line.

Hot Topic:
SECURE 2 Reminders for 2025

As we begin 2025, here are a couple of reminders about SECURE 2.0 changes that may be top of mind:

1. **Long-term part-time employee rules now require only two years of service with at least 500 hours of service.**

   Initially the long-term part-time employee rules required employees to have three consecutive years of service with at least 500 hours of service in each. SECURE 2.0, however, reduced this to **two** years beginning January 1, 2025. This means that, beginning January 1, 2025, most plans must allow part-time employees who have worked at least 500 hours for two consecutive 12-month periods to participate in at least the plan's deferral feature.

   Applicability: The rule applies to most 401(k) plans and ERISA-covered 403(b) plans. It does not apply to other defined contribution plans, like 457 plans or SIMPLE IRA plans. It also does not apply to collectively-bargained plans. It does, however, apply to 401(k) plans that are typically exempt from the tax code's service rules, such as governmental and non-electing church plans.

   Who is impacted: Plans that do not have a service condition, such as plans that permit employees to defer immediately, generally not impacted by the rule. Plans that impose a service condition (regardless of whether it is hours-based or elapsed time) for any group of employees may be impacted by the rule. This generally includes plans that exclude "part-time employees" and "seasonal employees." With the service requirement dropping from three years to two years, more plans and more employees are likely to be impacted.

   Action: Work with your TPA partner to ensure all employees that must participate are properly identified and begin participating timely. If you have a part-time workforce, talk with your TPA about whether design strategies to avoid costly monitoring, tracking, and vesting of these employees are appropriate.

2. **Roth catch-ups were put on hold until 2026.**

   SECURE 2.0 contained a provision that requires a significant change for most plan sponsors—the requirement that individuals with FICA wages over a certain threshold can make catch-up contributions only on a Roth basis. SECURE 2.0 provided that this provision would be effective in 2024. As a reminder, the IRS provided relief that effectively delayed implementation of this rule until **2026**. This means that, until 2026, catch-up contributions do not have to be designated Roth contributions — and, in fact, plans don't even need to offer the ability to make catch-up contributions on a Roth basis until 2026.

   As we all know, though, years often pass quickly! And sure enough, you now have less than 12 months to ensure you are ready to implement this new provision in 2026. We recommend starting to plan as early as possible in the new year, especially as this change may involve significant payroll implementation hurdles. Talk with your TPA partner to understand more about this rule and how to successfully implement this in 2026.