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Commco Comments

Timely Information and Updates for Employers and Retirement Plan Sponsors

IRS Delays Roth Catch-Up Rule

The SECURE 2.0 Act of 2022 contained a provision requiring that retirement plan participants who earned more than $145,000 from a single employer in the prior year (amount indexed to inflation in future years) must make any catch-up contributions on a Roth basis, rather than as pre-tax dollars. “Catch-up” refers to additional contributions that participants who will be age 50 or older on December 31 may make to their retirement accounts, in excess of ordinary annual limits.

Originally, this rule was set to take effect on January 1, 2024. However, on August 25, the IRS issued Notice 22032-62, which announced a two-year delay in the form of an “administrative transition period.” The Roth catch-up rule will not be enforced until January 1, 2026.

This change follows a letter sent to the House Ways & Means Committee in July, which was written by the American Benefits Council and signed by more than 200 retirement plan sponsors and recordkeepers. The letter stated that the changes necessary to be able to comply with the new rule simply could not be done in time for a vast number of plans.

For example, many plans do not yet allow for Roth contributions, and adding Roth contributions could require a collective bargaining process for private employers, or a legislative process for government plans. In addition, coordination between payroll administrators and pension recordkeepers is needed, and new software enhancements must be developed to track and ensure compliance.

The text of the SECURE 2.0 Act contained a drafting error which seemed to eliminate catch-up contributions altogether beginning in 2024. The announcement of the transition period also clarified that this was not the intention of the Act and that catch-up contributions will continue to be permitted. Additionally, the original wording of the new Roth catch-up rule caused some confusion around its applicability to self-employed

Continued on page 2

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What age must a person be to make catch-up contributions to their retirement account?

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Continued from page 1

individuals such as sole proprietors, who do not receive FICA wages but may have taxable income in excess of the $145,000 threshold. The announcement clarified that these individuals are not subject to the Roth catch-up requirement, as it does apply specifically to FICA wages.

Several additional points, including whether the mandate applies to special catch-up contributions made under 403(b) and 457(b) plans, still remain unclear. The IRS is soliciting additional comments to be provided by October 24, 2023, and further guidance from the IRS is expected to be released after these new comments have been reviewed. Senate leaders are also expected to introduce a technical corrections bill to more officially clarify that catch-up contributions are still allowed, but the timing on that bill has not yet been determined.

Wow, summer just flew by! Please let us know how we can support your team this fall. We are happy to help!

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