Fast Fact
March 7, 2024

SECURE 2.0 ACT: CATCH-UP CONTRIBUTIONS

The IRS definition for a catch-up contribution is "an elective deferral made by a participant age 50 or older that exceeds a statutory limit, a plan-imposed limit, or the actual deferral percentage (ADP) test limit for highly compensated employees (HCEs)."[1] In 2021, this statutory limit for an employer-sponsored retirement plan was $19,500, and participants ages 50 or older were allowed to contribute an additional catch-up contribution of $6,500. These limits are indexed annually.

Section 603 of the SECURE 2.0 Act of 2022 placed restrictions on catch-up contributions. Originally, from 2024 onward, individuals having earnings (as defined under the Federal Insurance Contributions Act (FICA)) of more than $145,000 in the previous calendar year would be required to make all catch-up contributions as Roth after-tax contributions.[2] In this *Fast Fact*, the Public Retirement Research Lab Database is used to assess the impact of this provision on public-sector retirement plan participants.

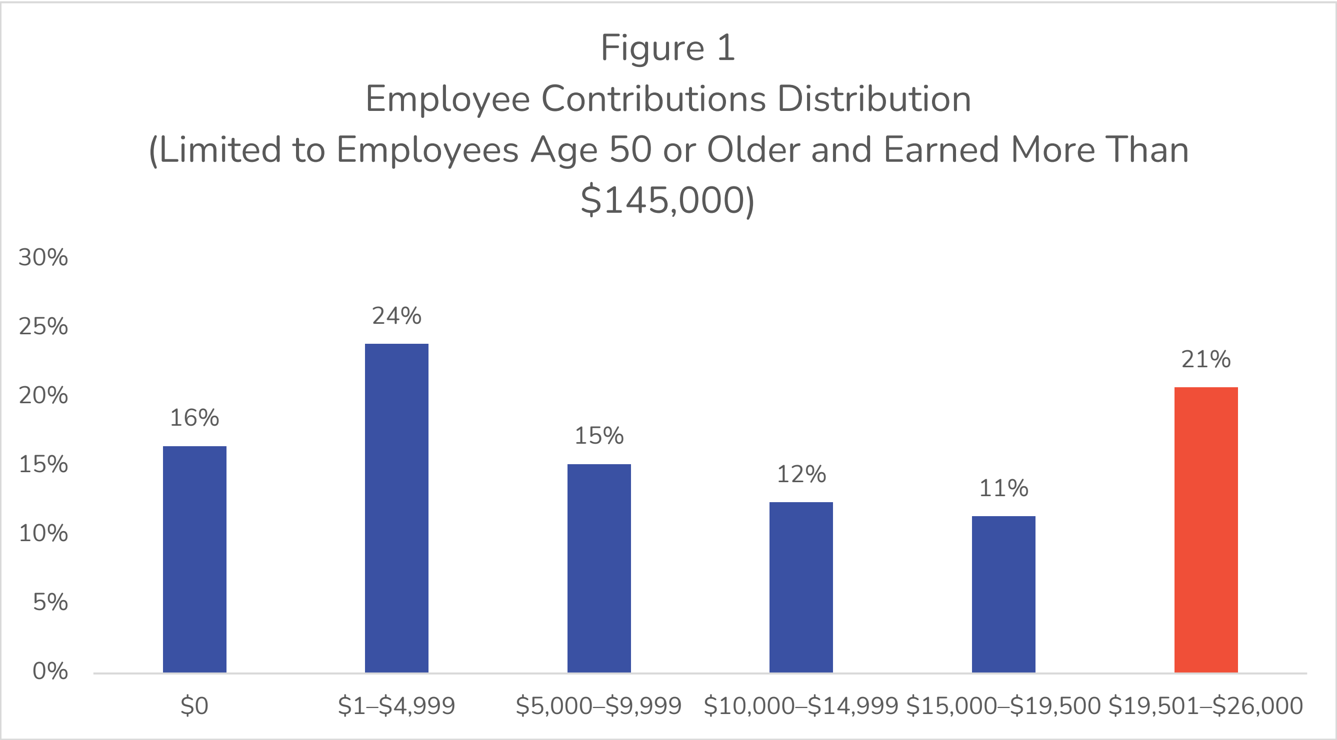
ABOUT THE DATA

The PRRL Database is an opt-in collaboration among public retirement plan sponsors. The analysis reflects data for two hundred sixty-seven 457(b), 401(a), 401(k), and 403(b) defined contribution (DC) plans; over 3.0 million retirement accounts across 2.5 million state, county, city, and subdivision government employees; and $170 billion in assets as of year-end 2021. Plan sponsors receive complimentary benchmarking as a participant benefit. For more information on how to participate, please contact NAGDCA Executive Director Matt Petersen at mpetersen@nagdca.org.

As of year-end 2021, the PRRL dataset included over 3 million participants. However, PRRL has age and salary information for about one-third of the participants. Out of the participants with the necessary data, 18,671 participants (less than 2 percent) were ages 50 or older and earned more than $145,000.[3] While the percentage of public-sector participants affected by this mandatory provision is relatively low, the percentage of the public-sector plan sponsors in the database impacted is much higher at 55 percent, as these participants are dispersed across many plans. In other words, 1 in every 2 plan sponsors may be required to make plan administration changes as a result of this provision.

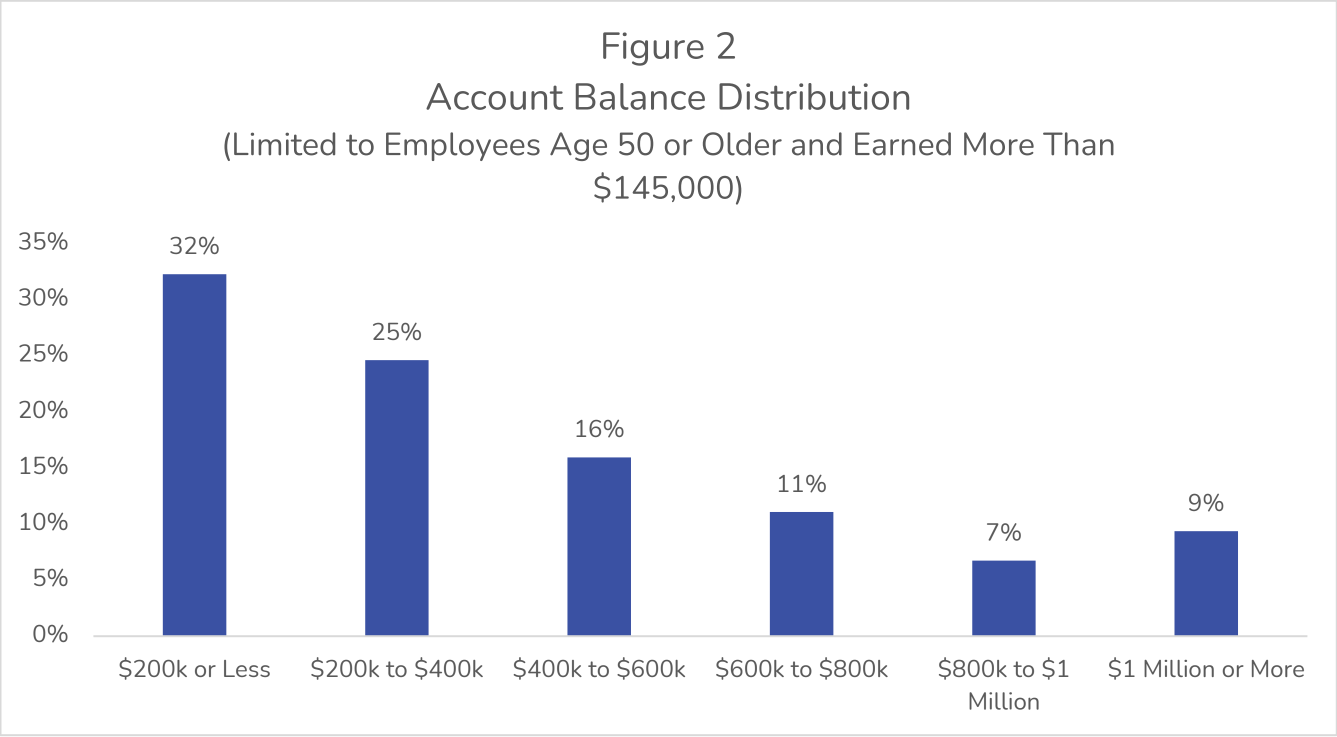
BY CONTRIBUTION LEVEL

Examining the data from 2021 reveals that, of all the participants ages 50 or older earning more than $145,000 in the database, 21 percent made contributions of more than $19,500 (Figure 1).



BY ACCOUNT BALANCE

As indicated in the figure below, 32 percent of participants ages 50 or older who earned more than $145,000 had account balances of $200,000 or less (Figure 2). Overall, 57 percent of the participants had account balances of $400,000 or less.



CONCLUSION

The SECURE 2.0 Act requires catch-up contributions for those who earned more than $145,000 in the previous calendar year to be Roth contributions. Data from 2021 reveals that, of all participants ages 50 or older earning more than $145,000, 20.6 percent made contributions of more than $19,500. These participants make up a small share of all participants, but roughly one-half of plans would be impacted by this Roth requirement.

The IRS released Notice 2023-62 on August 25, 2023, announcing that the implementation of the new Roth catch-up requirement would be delayed until taxable years starting after December 31, 2025. According to the notice, while the provisions of Section 603 apply to taxable years beginning after December 31, 2023, the first two taxable years beginning after December 31, 2023, will be considered an administrative transition period with respect to the requirement. Benefit decision makers should use the extended time to prepare to offer Roth plans to affected participants.

ABOUT PRRL

The Public Retirement Research Lab is a retirement-industry-sponsored collaborative effort of the Employee Benefit Research Institute (EBRI) and the National Association of Government Defined Contribution Administrators (NAGDCA). The PRRL analyzes data from its Public Retirement Research Database, the first-ever database specific to public-sector defined contribution data, to produce unbiased, actionable research aimed at enhancing understanding of the design and utilization of public-sector defined contribution retirement plans to better inform public plan design, management, innovation, and legislation. To learn more, visit www.prrl.org.

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ENDNOTES

[1] Internal Revenue Service. "Issue Snapshot - 401(k) Plan Catch-up Contribution Eligibility." Available at https://www.irs.gov/retirement-plans/401k-plan-catch-up-contribution-eligibility.

[2] Section 603 of the SECURE 2.0 Act of 2022 stipulates that all catch-up contributions to qualified retirement plans will be subject to Roth tax treatment, effective for taxable years beginning after December 31, 2023. An exception is provided for employees with compensation of $145,000 or less (indexed). The requirement for this to start after December 31, 2023, was given an administrative transition period until taxable years after December 31, 2025.

[3] The annual salary provided in the database is used as a proxy for FICA wages. Salary information is available for approximately 40 percent of participants in the PRRL Database.