



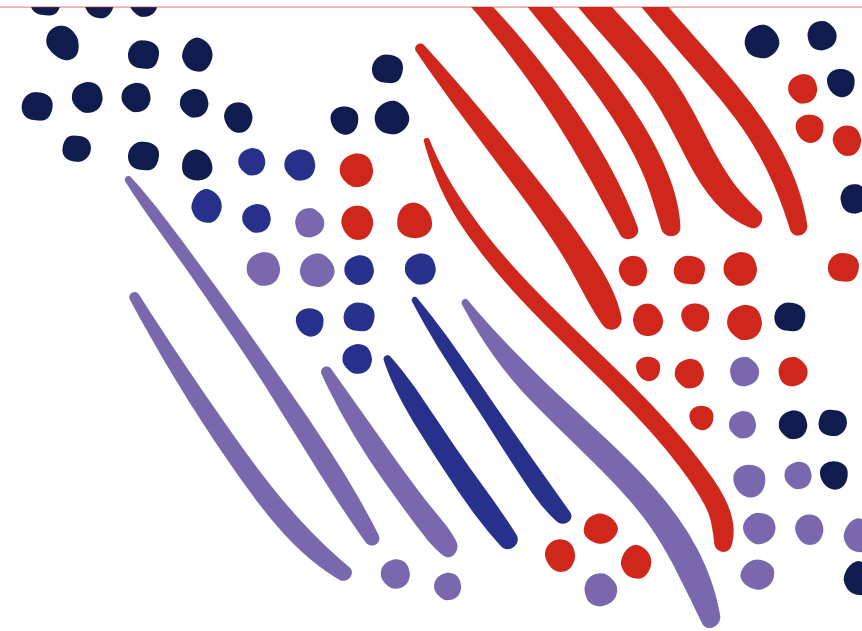
SECURE Act 2.0: Current Status Updates and Guidance

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Major Accounts Compliance and
Risk

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Agenda

- **SECURE Act 1.0 vs. 2.0**
- **Overall SECURE Act 2.0 Imperatives**
- **Agency Guidance Needed**
 - Potential Outcomes
- **Section 125: Long-Term, Part-Time (LTPT) Employees**
 - Requirements and Options
 - Guidance and Considerations
- **Sections 109 and 603: Catch-Up Limits and Roth Deductions**
 - Overview of Requirements
 - Common Questions and Discussion Points
- **The Bottom Line**

Note: For more information on SECURE Act 2.0 requirements, reference [SECURE 2.0 Act of 2022 Makes Sweeping Changes to Retirement Savings Plans | SPARK Blog | ADP](#).



SECURE Act 1.0 vs. 2.0

SECURE Act 2.0 represents a very different level of **change** from 1.0...



SECURE Act 1.0

- **Long-Term, Part Time (LTPT)** Employee Eligibility for 401(k) plans
- **30 provisions** designed to provide incentives for Retirement Savings



SECURE Act 2.0

- LTPT Employee Eligibility
- **Automatic Enrollment** (with Opt-Out)
- **Automatic Escalation** of percentage increases
- **Roth (Post-Tax) Catch-Up** deductions required
- Roth (Post-Tax) **employer contributions**
- **90 provisions** affecting retirement savings plans

Overall SECURE Act 2.0 Imperatives

Our work, and determining what our work will be, is only beginning...

Different **effective dates** for different provisions

SECURE Act 2.0 contains both **requirements** and **options**

Reporting specifications provided by 401(k) and other Plan Administrators

Roles of **payroll practitioners** relative to 401(k) and other **Administrators**

Guidance needed on some requirements and options from **Internal Revenue Service (IRS)** and **Treasury Department**

Some requirements appear to have greater impact **outside** of payroll

- For example, **Automated Enrollment** and **Escalation** requirements

Plan documentation and impact on how SECURE Act 2.0 **requirements** need to be complied with, and **available options** offered to employees

Agency Guidance Needed

Guidance is sought for the following sections of SECURE Act 2.0 from the **Internal Revenue Service (IRS)** and **Treasury Department**:

Section	Description
110	Treatment of Student Loan Payments for Matching Contributions <ul style="list-style-type: none">• Beginning in 2024, student loan payments can be treated as retirement contributions for the purpose of qualifying for matching contributions in a workplace retirement account.
601	Simple and SEP Roth IRA's (effective during 2023) <ul style="list-style-type: none">• Section 601 allows SIMPLE IRAs to accept Roth contributions• Section 601 allows employers to offer employees the ability to treat employee and employer SEP contributions as Roth
603	Catch-Up Contributions Must be Made on a Post-Tax ("Roth") Basis <ul style="list-style-type: none">• After 2023, all Catch-Up contributions for participants earning over \$145,000 annually must be made on a Roth (after-tax) basis
604	Optional Roth Treatment of Employer Contributions <ul style="list-style-type: none">• Effective immediately, employers may amend their plans to permit employees to elect that employer matching and non-elective contributions be made as Roth (after-tax) contributions, as long as they are 100 percent vested when contributed to the plan.

Agency Guidance Needed

The following are examples of **guidance sought** from IRS and Treasury:

Section	Guidance Needed
110	Treatment of Student Loan Payments for Matching Contributions <ul style="list-style-type: none">• When do the matching contributions need to be made in relation to the qualified student loan payments?<ul style="list-style-type: none">• Should this be handled within the Payroll process or elsewhere?• How will this be reported (Form W-2, 1099)?
601	Simple and SEP Roth IRA's (effective during 2023) <ul style="list-style-type: none">• Should contributions to SEP and SIMPLE Roth IRAs be handled in the same manner that elective deferrals and employer contributions are treated when contributed to a designated Roth account within a retirement plan?
603	Catch-Up Contributions Must be Made on a Post-Tax ("Roth") Basis <ul style="list-style-type: none">• Clarification on the meaning of "from the employer"; within the same Federal Employer Identification Number (FEIN), or across FEINs?• W2 reporting requirements• Will employees be required to meet the standard 402g limit (\$22,500 for 2023) before the Roth catch-up deduction can begin?• Can contributions be made concurrently?
604	Optional Roth Treatment of Employer Contributions <ul style="list-style-type: none">• Will the contribution be reported on Form-W2 or 1099-R?• Are employer contributions that are designated as Roth contributions taxable to a participant in the year they are made even if they pertain to the prior plan year?• Are employer contributions that are designated Roth contributions considered wages for purposes of FICA taxes or income tax withholding?

Agency Guidance Needed

Potential Outcomes

The following are examples of **outcomes** based on IRS and Treasury guidance and decision-making:

Outcome	Description
Delay/Extension of Effective Date for at least some Requirements	Affordable Care Act (ACA) guidance and actions provide some indication of how SECURE Act 2.0 could be affected: <ul style="list-style-type: none">• ACA Annual Reporting requirements were delayed until 2015• SECURE Act 2.0 requirements could be subject to similar extensions
Good-Faith Relief	Effective Dates remain for requirements, but enforcement is subject to different expectations : <ul style="list-style-type: none">• Terms of any Good-Faith Relief need to be stipulated by IRS and Treasury• These stipulations could be part of overall guidance or issued separately

Section 125: Long-Term, Part-Time (LTPT) Employees

Requirements and Options

The SECURE Act **requires** employers to allow **long-term, part-time workers** to participate in employers' 401(k) plans:

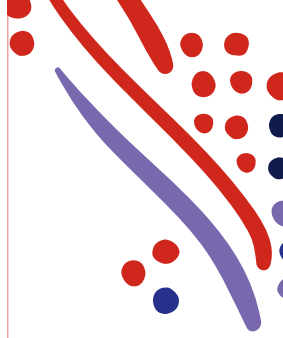
Requirement/Option	Description
LTPT Employee Definition	<p>The SECURE Act provision provides that – except in the case of collectively bargained plans – employers maintaining a 401(k) plan must have a dual eligibility requirement under which an employee must:</p> <ul style="list-style-type: none"> • Complete either 1 year of service with 1,000 or more hours of service, or... • 3 consecutive years of service where the employee completes at least 500 hours of service <p>Note: The three-year reporting period was established in SECURE Act 1.0; reporting periods in SECURE Act 2.0 are reduced to 2 years, as shown below.</p>
Reporting Periods	<p>Section 125 reduces the 3 year rule to 2 years, effective for plan years beginning after December 31, 2024.</p> <ul style="list-style-type: none"> • SECURE Act 1.0: Plan years beginning in 2024 – Hours of Service during 2021, 2022 and 2023 • SECURE Act 2.0: Plan years beginning in 2025 – Hours of Service during 2023 and 2024 • SECURE Act 2.0: Plan years beginning in 2026 and thereafter – Hours of Service during the previous two years
Employer Match and Contributions	<p>Employers may, but are not required to, match the salary deferrals or make a nonelective employer contribution to the accounts of employees who participate in the plan as a Long-Term, Part-Time employee</p>

Section 125: Long-Term, Part-Time (LTPT) Employees

Guidance and Considerations

The SECURE Act **requires** employers to allow **long-term, part-time workers** to participate in employers' 401(k) plans:

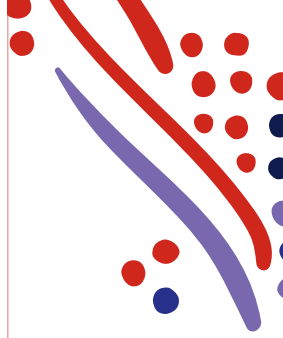
Requirement/Option	Guidance/Considerations
Hours of Service Definition	<p>If you use the actual hours rules for crediting service then an "hour of service" must include any hour for which the employee is paid but during which no duties were performed.</p> <ul style="list-style-type: none"> • These situations would include paid vacation time, holidays, sick time, and jury duty, among others.
Hours of Service Reporting for 401(k) Plans	<p>What constitutes the 12 months for counting hours of service for LTPT eligibility purposes?</p> <ul style="list-style-type: none"> • The LTPT eligibility calculation, under many plan provisions, starts from the date of hire to the anniversary date of hire <ul style="list-style-type: none"> • Then in future years, the eligibility period is measured based on the Plan Year • Some plans measure the eligibility computation period solely on anniversary years • Does the employer's Plan Year correspond to the calendar year?
Hours of Service Reporting for 403(b) Plans	<p>After SECURE Act 2.0 and amendments to ERISA and the Internal Revenue Code, 403(b) Plans are prohibited from excluding for deferral purposes, any employees who are long-term part-time employees.</p> <ul style="list-style-type: none"> • For plan years beginning on or after January 1, 2025, employees will be eligible under their employer's 403(b) plan after two consecutive years of 500 hours or more of service • No three-year look-back for 2024
Ongoing Eligibility of LTPT Employees	<p>Once an employee has met the LTPT eligibility requirements, the employee will always be eligible to participate in your Plan under the LTPT rule.</p>
Excluding LTPT Employees from Employer Match and Non-Elective Contributions	<p>Plan provisions can provide that LTPT employees are not eligible for matching or nonelective contributions.</p> <ul style="list-style-type: none"> • Does Plan documentation specifically address inclusion in/exclusion from employer contributions?



Sections 109 and 603: Catch-Up Limits and Roth Deductions

Overview of Requirements

Requirement/Option	Details
Section 109: Catch-Up Limits	<p>In 2023, participants age 50 and older can contribute an extra \$7,500 per year annually into their 401(k) account</p> <ul style="list-style-type: none">• Under Section 109, this amount will increase to \$10,000 per year (indexed for inflation) starting in 2025 for participants age 60 to 63
Section 603: Roth Catch-Up Requirement	<p>After 2023, all catch-up contributions for participants earning over \$145,000 annually must be made on a Roth (after-tax) basis.</p> <p>Note: The \$145,000 threshold is based on FICA taxable wages earned during the prior year from the employer sponsoring the plan.</p>
Section 603: Affected Employer Plans	<p>Employers offering 401(k), 403(b) and 457 plans are required to deduct Catch-Up as Roth for employees exceeding the income threshold.</p>



Sections 109 and 603: Catch-Up Limits and Roth Deductions

Common Questions and Discussion Points

Section	Question	Discussion Points
603	Is your company currently able to deduct Catch-Up as Roth for affected employees?	<p>Pre-tax deductions appear to be more widely used</p> <ul style="list-style-type: none"> Does your company's configuration for Catch-Up deductions need review?
603	Does your company deduct Catch-Up concurrently with Standard, Pre-Tax amounts, or after the 402(g) limit is met?	<p>Deducting Catch-Up after the 402(g) limit is met will allow more time for verification of 2023 FICA taxable wages:</p> <ul style="list-style-type: none"> To what extent should providers of payroll services be involved with these discussions? What level of automation will be available?
603	How can Prior Year information (FICA Taxable amount) be efficiently used to determine treatment of Current Year deductions?	<p>What is the feasibility of pulling Prior Year information into Current Year reporting?</p> <ul style="list-style-type: none"> Proactive monitoring of FICA taxable amounts is prudent during 2023 What is the communication plan for affected employees based on any such monitoring?
603	How should corrections to Catch-Up withheld as Pre-Tax that should have been Post-Tax (Roth) be handled?	<p>Best practice may be to have Administrators issue 1099-R forms to employees for these corrections</p> <ul style="list-style-type: none"> 401(k) and other Plan Administrators need to properly classify contributions as Pre-Tax or Roth based on the investment life cycle for the employee Amendments to W2s and quarterly tax returns are not always the appropriate response <p>Note: We are waiting to see if/how IRS and Treasury guidance may affect these corrections.</p>
109	For employees 60 and older, what considerations need to be addressed for increased Catch-Up limits?	<p>What level of awareness do these employees have of the increased limits?</p> <ul style="list-style-type: none"> What level of automation exists based on the employee's birthdate and other indicative information? What strategy is needed to communicate both the Catch-Up requirements and increased limits, among other information?

The Bottom Line

SECURE Act 2.0 requirements and options need to be kept in **perspective**...



- Agency guidance may change effective dates **and** expectations
- It's **uncertain** when this guidance will be available
- Information not typically part of the **payroll process** will affect decisions
- A **proactive approach** based on known information is sound strategy
- What can we do ourselves, and with what do we need **assistance**?

