Choosing a Retirement Plan in a SECURE 2.0 World

Today You’ll Learn

- Tax credits for starting a new plan
- Key features of retirement plans & IRA-based plans
- New Roth contributions and withholding
- When Roth distributions are tax-free
- About matching student loan repayments
- How to treat long-term part-time employees

Why Offer a Retirement Plan

- Help employees save for a more secure future
- Attract and retain quality employees
- Tax savings for employees & employer
- Help secure your own retirement
- Some states are now requiring employers to offer a retirement plan

Who Can Start a Retirement Plan

- There is a plan for every type of employer
  - Sole Proprietor and Partnerships
  - C Corporation
  - S Corporation
  - LLC
  - LLP
  - Tax-exempt organizations
  - Governments

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Enhanced tax credits for new plans

- Plans started in 2023 or after, tax credit of 100% of administrative costs, ranging from $500 - $5,000
- Additional 100% credit of up to $1,000 per employee for employer contributions to employees earning <$100,000 the first year of the plan
  - Credit decreases 25% each of the following 3 years
- Lesser credits employers with 51-100 qualifying employees
- Military spouse employees: up to $500 tax credit
- IRS.gov/NewPlanCredit

Three categories of retirement plans

- IRA-based plans: Payroll deduction IRA, SEP IRA, SIMPLE IRA
- Defined contribution plans – Profit-sharing and 401(k) plans
- Defined benefit plans

IRA-based Plans

- Payroll deduction IRA
- SEP IRA
- SIMPLE IRA

Payroll deduction IRA

- Employer
  - No formal plan adopted, no contributions
  - Should make available to all employees
- Employee
  - Makes all contributions: IRA limit $7,000, plus $1,000 age 50 catchup for 2024
  - Decides how much to contribute, and how to invest
  - Determines if contribution is deductible on their 1040

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SEP-IRA

- Any size employer can set up a SEP
- A SEP must include employees who
  - Reach age 21,
  - Employed by employer 3 of last 5 years
  - And earned $750
- Employer contributions only
- Maximum contribution $69,000 for 2024
- SECURE change: Contribution may be Roth

SIMPLE-IRA

- 100 or fewer employees, only plan (SECURE exception)
- Establish using IRS model or financial institution plan
- A SIMPLE must include employees who
  - Have compensation of at least $5,000 in 2 prior years
  - Expected to earn at least $5,000 in current year
- Employees may contribute $16,000 plus $3,500 if age 50
- Employer matches salary deferrals up to 3% of pay, or contribute 2% of pay for all eligible employees
- SECURE change: Roth employee and employer contributions

IRA-based plans

- Filing requirements
- Type/size of employer who might choose IRA-based plan
- Pros/Cons
- Common mistakes

Profit-sharing plans

- Employees who reach age 21 and work 1,000 hours must become participants on the plan’s next entry date
- Contributions discretionary, profits not required
- Allocated by formula set in plan
- Maximum contribution is limited to the lesser of $69,000 or 100% of compensation for 2024
  - Deduction can’t exceed 25% of all employees comp
- SECURE change: Employer Roth contributions

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401(k) plans

- Eligibility requirement: Age 21, 1 YOS (1,000 hours)
- Employees defer portion of their salary into the plan
  - Up to $23,000, or 100% of compensation
  - An additional age 50 catch-up of $7,500
  - Deferrals can be pre-tax or Roth
- Employer can also match deferrals or make a profit-sharing contribution

401(k) plans

- ADP/ACP testing
- Safe Harbor 401(k) plan
- Automatic Enrollment 401(k) plan

Profit-sharing/401(k) plans

- Filing requirements
- Type/size of employer who might choose a profit-sharing plan
- Pros & Cons
- Common mistakes

Defined benefit plans

- Must cover all employees age 21 and who work at least 1,000 hours
- A yearly funding requirement set by an actuary
- Provides a definite benefit at retirement
- Builds assets towards a monthly retirement income

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Defined benefit plans

- Filing requirements
- Type/size/age of employer who chooses a defined benefit plan
- Pros & Cons
- Common mistakes

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SECURE 2.0 changes 401(k) plans

- Starter 401(k)
- Matching student loan repayments
- Retroactive first year deferrals
- Catch-up deferrals: New age 60-63 tier
- Long-term part-time eligibility rules

Starter 401(k) Plans

Plan years beginning after December 31, 2023

- New category of safe harbor 401(k) plan - No ADP or top-heavy testing
- Elective salary deferrals only
- Auto enrollment between 3% - 15% deferral rate
- Deferral limit = $6,000 (indexed)
  - Limit is set at IRA contribution limit, not the 402(g) limit
  - Plus $1,000 age 50 catch-up, same as with IRAs

Matching Student Loan Repayments

Plan years beginning after December 31, 2023

- Employer recognizes self-certified student loan repayments as if they were elective salary deferrals in employer’s plan
- Employer match is based on this “deemed” deferral amount
  - Deemed deferral amount plus actual salary deferrals must me less than 402(g) limit
  - Must vest in the same manner as salary deferral match
- ADP test may apply separately to employees receiving student loan match

Retroactive First Year Deferrals

- SECURE 1.0: Adopt plan retroactively by due date of tax return (plus extension) in the following year
- No deferrals before election to defer (see plan terms)
- SECURE 2.0: Sole proprietor can adopt a new 401(k) plan in the following year, make deferrals for the prior year
- First year of plan only
- Sole proprietor must be the only employee
- Deferrals must be made before filing due date of individual return (without regard to extensions)

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Catch-up: New Age 60 to 63 Tier

Plan years beginning after December 31, 2024

- Age 60-63 next tier of higher catch-up limits:
  - Individuals who attain age 60, 61, 62 or 63 during the year
- Limit is greater of:
  - $10,000, or
  - 50% more than the regular age 50 catch-up amount
    - Example: 401(k) catch-up limit = $7,500
    - Age 60-63 tier = $11,250

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Long-term Part-time Employees (LTPT)

- Prior law: No differentiated 401(k) eligibility: “21 & 1”
- Current law: SECURE 2.0 adds to new criteria for ‘long-term, part-time” employee eligibility originally in SECURE 1.0
- Plan must allow employees with 2 consecutive years of 500 hours of service to participate in the 401(k) feature
  - Earliest deferrer under this would be for 2024
  - Pre-2021 service disregarded for vesting & eligibility
  - Aim is to get ‘gig workers’ into retirement savings system

SECURE 2.0: New Roth Options

SECURE 2.0: New Roth option

- Plans can now offer option to designate matching or nonelective contributions (such as profit-sharing contributions) as Roth contributions
- Plan document must first allow this Roth option
- Roth employer contributions are taxable income to the employee
- Fully vested when made

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New SECURE Act Contribution Types

- SECURE 2.0 allows for additional features in various employer retirement plans
- Some provisions affecting Forms W-2 (including Forms W-2AS, W-2GU and W-2VI) are:
  - De minimis financial incentives
  - Roth SIMPLE and Roth SEP-IRA arrangements and
  - Optional treatment of employer nonelective or matching contributions as Roth contributions

De Minimus Financial Incentives

- Employers can offer small financial incentives to encourage employees to elect to contribute to their employers’ 401(k) or 403(b) plans
- If an employer offers such an incentive, it's considered part of the employee's income and is subject to regular tax withholding unless there's a specific exemption
- Reflected on Form W-2
- See Section D of Notice 2024-2

Roth SEP and Roth SIMPLE

Employee Salary Reduction Contributions

- Employee option of having their salary reduction contributions deposited into a Roth IRA instead of a traditional IRA
- Roth-elected **Employee** contributions are subject to:
  - Federal income tax withholding (FITW)
  - Federal Insurance Contributions Act (FICA) and
  - Federal Unemployment Tax Act (FUTA)
- Reported on Form W-2
  - Amount included in boxes 1, 3 and 5 (or box 14 for railroad retirement)
  - Showing code F (for SEP) or code S (for SIMPLE IRA) in box 12

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Roth SEP and Roth SIMPLE-IRA

Employer Contributions

- Roth contributions from the **Employer** to a Roth SEP or Roth SIMPLE are not subject to FITW, FICA or FUTA
- Report Roth employer contributions on Form 1099-R
  - For the year in which they're allocated to the individual's account
  - Total amount should be listed in boxes 1 and 2a, code 2 or 7 in box 7, and the IRA/SEP/SIMPLE box should be checked
  - See Section K of Notice 2024-2

Optional Treatment of Employer Contributions - Roth

Designated Roth Nonelective or Matching Contributions

- Plans can allow employees to designate certain matching and nonelective contributions made after Dec. 29, 2022, as Roth contributions
  - These employer contributions are not subject to FITW, FICA or FUTA.
  - Reported on Form 1099-R for the year contribution was allocated to the participant’s account, in boxes 1 and 2a, with code “G” used in box 7.
  - See section L of Notice 2024-2

Didn’t get it right?

- Use IRS correction program to fix:
  - Missed contributions
  - Omitted employees
  - Missed plan amendments
- Many mistakes corrected without IRS contact

Resources

- IRS.gov/retirement
- IRS.gov/PlanResources
- IRS.gov/PlanChecklists
- IRS.gov/5500corner
- IRS.gov/EPnewsletter
- IRSvideos.gov