

Secure 2.0

Quick Take – Designating Employer Contributions as Roth

Designating Employer Contributions as Roth under the Secure Act

Section 604 of Secure 2.0 allows participants to elect to treat their employer contributions as Roth.

- Only vested employer contributions can be designated as Roth
 - Matching contributions
 - Including match on student loan repayments
 - Non-elective contributions
- This provision was effective 12/29/2022 and is an optional provision
- Available for 401(k), 403(b) and governmental 457(b) plan
- Plan Sponsors will still be able to deduct employer contributions designated as Roth

How Will it Work?

Good question! This is still an area where guidance is needed!

- Are the employer contributions taxed via payroll and deposited into the retirement plan as Roth? What does that mean for payroll providers?

OR

- Does the employer deposit contribution as normal and the recordkeeper deposits into Roth account and issues 1099R at year end? Will the participants be ready to pay the taxes in full come April?

Pitfalls Sponsors Should Consider

Guidance is needed!

- Only permitted for vested contributions so can someone who is 60% vested elect to have 50% of their employer match designated as Roth?
- Is this an annual election or a per payroll election?
- How does a participant make the election?
- How are the taxes handled?
 - Is this a payroll function or is it a Roth conversion?
 - Are the taxes reported on a 1099?

Other Considerations for Plan Sponsors

Participants might not be fully aware of the tax implications of designating an employer contribution as Roth

- Plan Sponsors will need to establish a process for soliciting and processing employees' elections. This may impact payroll submission files as well as require additional sources be maintained by your retirement service providers.
- Education, education, education! Plan sponsors will need to ensure that they have provided sufficient employee education so they can make an informed decision.
- Roth employer contributions will be included in a participant's gross income and be taxed at regular taxable wage withholding rates.
- A significant contribution may push a participant into a higher tax bracket.

Consider Your Options Carefully

- There is no financial incentive for an employer to implement
- Keep in mind that only 15% of participants utilize the Roth feature and only 4% use the in-plan Roth rollover provision when offered
- A Roth conversion provision accomplishes the same thing without the hassle and uncertainty

Stay Tuned

Stay tuned for more updates on the provisions of SECURE 2.0 and the impact on your plan.