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INFORMATION UPDATE (NOVEMBER 2024)

New catch-up deferral rules will affect your plan – some as soon as this January. Please review and discuss these with your payroll team as soon as possible.

HIGHER CATCH-UP LIMIT FOR THOSE AGES 60-63 *(EFFECTIVE 01/01/25)*

Current Rule: Participants may defer an extra "catch-up" beginning the calendar year they attain age 50. The maximum regular catch-up for 2025 is $7,500.

New Optional Rule: Starting in 2025, participants may defer an extra 50% catch-up in the calendar years they attain ages 60-63; for 2025, this is an additional $3,750 for a total catch-up of $11,250. In the calendar year they attain age 64, they must revert back to the regular catch-up limit.

The default is to allow for the additional catch-up. If you believe you will have trouble implementing this, both when a participant is eligible for it and when they age out, then you should consult with your financial advisor and/or accountant about not allowing it.

If you would like to amend this out of the plan, effective 1/1/25, please let Creative Pension Consultants know by December 1, 2024.

If you will be allowing for the additional catch-up, contact your payroll provider to ensure their readiness. Please also review and consider how this will be communicated to applicable participants (such as a "payroll stuffer.")

CATCH-UP DEFERRALS AS ROTH FOR "HIGH EARNERS" *(EFFECTIVE 01/01/26)*

Current Rule: If Roth deferrals are allowed for in the plan, Participants may elect to contribute pre-tax deferrals and/or Roth. For most plans, this may be done in any combination.

New Rule: "High Earners" MUST make their catch-up deferrals as Roth deferrals. A "High Earner" is someone with FICA Wages of at least $145,000 in the previous year.

This may lead to changes in your plan design:

- ***Does the plan have to allow for regular Roth deferrals to accommodate this new rule?*** Yes. So, the plan will have to be amended in 2025 to add Roth by 1/1/2026, if not already utilized. ALL participants will then have the option to make regular Roth deferrals.

- ***Can non-High Earners make their catch-up deferrals as Roth?*** Yes. If your plan already allows for Roth, the typical default for catch-up is pre-tax deferrals; this will not be changed, unless you request it. If Roth is being added to your plan for the first time, catch-up will default to pre-tax deferrals, unless you request otherwise.

CATCH-UP DEFERRALS AS ROTH (continued)

- ***What about sole proprietors and partnerships?*** Sole proprietors and partners technically do not have "FICA Wages"; so, they seem to be exempt from this rule (for now). Note that "non-equity partners", who have all their income reported on a W-2, may be subject to this rule.

- ***Will the $145,000 limit change?*** Yes. This limit will be adjusted for inflation each year.

If your plan allows for catch-ups at all, then you MUST follow this new rule. However, just like with the additional catch-up discussed above, allowing for regular catch-ups is optional; they are generally expected, but you could opt your plan out of them. You may wish to opt out for the same reasons you would opt out of the additional catch-up: implementation, monitoring, etc. However, it would be unusual to do so.

If you think you will have difficulties complying with the new requirement, we recommend that you discuss catch-ups in general with your financial advisor and/or accountant. If you remove catch-ups entirely, then neither the Roth catch-up nor the additional catch-up would be applicable.

If you are leaving catch-ups in, or adding catch-ups to, your plan, we recommend that you review this with your payroll provider to ensure that they will be ready to handle this, to learn what steps you need to take to activate it on their end, and to discuss what notifications they will provide.

ROTH EMPLOYER CONTRIBUTIONS

Speaking of Roth, here's where we stand on another provision from the SECURE Act.

What It Is: As of current, plans may technically allow Participants to direct employer contributions (i.e., safe harbor, profit sharing, etc.) into Roth accounts instead of traditional pre-tax accounts. However, as a practical matter, this can not yet be implemented.

Where It Stands: Some clarifications have been released and the pension community (notably the financial institutions) is getting closer to making this available, but we cannot recommend it at this time. Even if the plan document allowed it, your investment provider likely cannot properly administer it yet.

There have been a lot of changes in retirement plans in the past few years and we know that this can feel overwhelming. We will keep you advised as much as possible with emails like this and via the quarterly newsletter on our website (www.crepen.com/newsletter.htm). And, as always, feel free to contact your CPC administration team with any questions.