

— SECURE 2.0

SECURE 2.0 Expands Roth Options for Employer-Sponsored Retirement Plans

The SECURE 2.0 Act contains provisions that allow individuals to place more of their assets into Roth accounts. Implementing these provisions requires significant retooling for employers, third-party providers, and financial organizations. In December 2023, the Internal Revenue Service (IRS) released [Notice 2024-02](#) which provides insight into how the retirement industry can effectively support the administration of these provisions.



Employers may permit participants to designate matching and nonelective contributions as Roth

The rules for Roth matching and Roth nonelective contributions are similar to the rules for designated Roth elective deferrals. For example, a participant must designate her irrevocable election to receive Roth employer contributions no later than when the contribution is allocated to her account. In addition, Roth matching or Roth nonelective contributions are includable in a participant's income and are subject to separate accounting rules.

Here's what we know about the administration of Roth matching and Roth nonelective contributions.

- This provision applies to contributions made after December 29, 2022.
- Employers can choose to offer any or all of the options among the three different types of designated Roth contributions (deferral, matching and nonelective) to their 401(k) plans, 403(b) plans, and governmental 457(b) plans.
- A participant must have the ability to make or change her election to designate employer contributions as Roth at least once each plan year.
- Roth matching and Roth nonelective contributions must be 100% vested at the time the contribution is allocated to a participant's account.
- If a participant is not fully vested, she cannot designate any part of a matching or nonelective contribution as Roth.

Also, since Roth matching and Roth nonelective contributions are treated as designated Roth assets, they can be rolled over only to another designated Roth account or Roth IRA. Employer contributions designated as Roth also qualify the plan to permit in-plan Roth rollovers, even if the employer does not permit participants to designate elective deferral contributions as Roth contributions.

Withholding and Taxation of Employer Roth Matching and Roth Nonelective Contributions

	401(a) defined contribution plans	403(b) plans	Governmental 457(b) plans
Federal Income Tax Withholding	N/A	N/A	N/A
Federal Unemployment Act (FUTA)	N/A	N/A	N/A
Federal Insurance Contributions Act (FICA)	N/A	N/A	Yes (as applicable)

Reporting requirements for designated Roth matching and Roth nonelective contributions are the same as those for an in-plan Roth rollovers and are reported in Boxes 1 and 2a using code “G” in Box 7 on [Form 1099-R](#), *Distributions from Pensions, Annuities, Retirement or Profit Sharing Plans, IRAs, Insurance Contracts, etc.*

Designated Roth matching and Roth nonelective contributions are taxable when actually allocated to the participant’s account—even if it is a contribution for a prior tax year.

Next Steps

The option for participants to designate pretax contributions as Roth contributions will be attractive for many, but employers may be reluctant to offer this option until service providers are able to seamlessly support the administration of Roth employer contributions. Instead, employers may choose to offer participants the option to request an in-plan Roth rollover to achieve the same result. Employers must verify that an in-plan Roth rollover provision is permitted in the plan document.

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