

Secure 2.0 Reminders for 2025

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As we begin 2025, a couple reminders about some changes under SECURE 2.0 that may be top of mind:

1. Long-term part-time employee rules now only require two years of service with at least 500 hours of service.

Initially the long-term part-time employee rules required employees to have three years of service with at least 500 hours of service in each. SECURE 2.0, however, reduced this to two years of service beginning January 1, 2025. This means that, beginning January 1, 2025, most plans must allow part-time employees who have worked at least 500 hours for two consecutive 12-month periods to participate in at least the plan's deferral feature.

Applicability: The rule applies to most 401(k) plans and ERISA-covered 403(b) plans. It does not apply to other defined contribution plans, like 457 plans or SIMPLE IRA plans. It also does not apply to collectively bargained plans. It does, however, apply to 401(k) plans that are typically exempt from the tax code's service rules, such as governmental and non-electing church plans.

Who is impacted: Plans that do not have a service condition, such as plans that permit employees to defer immediately, generally not impacted by the rule. Plans that impose a service condition (regardless of whether it is hours-based or elapsed time) for any group of employees may be impacted by the rule. This generally includes plans that exclude "part-time employees" and "seasonal employees." With the service requirement dropping from three years to two years, more plans and more employees are likely to be impacted.

Action: Your TPA partner can help ensure your clients properly identify long-term part-time employees and have them begin participating timely. Your TPA partner can also help you identify whether design strategies to avoid costly monitoring, tracking, and vesting of these employees are appropriate.

2. Roth catch-ups were put on hold until 2026.

SECURE 2.0 contained a provision that requires a significant change for most plan sponsors — the requirement that individuals with FICA wages over a certain threshold can make catch-up contributions only on a Roth basis. SECURE 2.0 provided that this provision would be effective in 2024. As a reminder, the IRS provided relief that effectively delayed implementation of this rule until **2026**. This means that, until 2026, catch-up contributions do not have to be designated Roth contributions — and, in fact, plans don't even need to offer the ability to make catch-up contributions on a Roth basis until 2026.

As we all know, though, years often pass quickly! And sure enough, your clients now have less than 12 months to ensure they are ready to implement this new provision in **2026**. You can help them avoid surprises and stress related to the plan by encouraging them to start planning as early as possible in the new year, especially as this change may involve significant payroll implementation hurdles. Talk with your TPA partner to understand more about this rule and how to help your clients successfully implement this in 2026.

Plan sponsors may have these top-of-mind as we enter 2025. Knowledge about these topics can be a great value add for your clients.

Reminders

- **January 31, 2025:** General deadline for providing plan vendors (recordkeepers and TPAs) with plan and participant data for annual testing.
- **January 31, 2025:** Deadline for sending Form 1099-R to participants who received distributions from a qualified retirement plan during the previous year.
- **February 28, 2025:** Deadline for filing paper Form 1099-R with the IRS to report distributions made in the previous year.