

# What's Important in 2025: SECURE Act 2.0 Changes and Their Impact

By Fred Reish  
Faegre, Drinker, Biddle and Reath



While plan committee members act as fiduciaries for managing their retirement plans, such as 401(k) plans, they also have an important role in helping their companies keep abreast of any changes in the law and decisions that need to be made about the new laws.

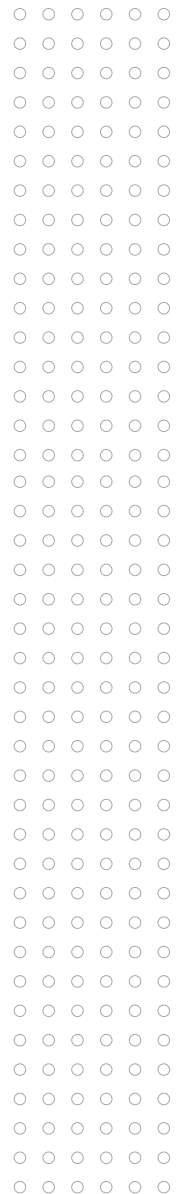
The most recent major law on retirement plans was the SECURE Act 2.0, which was enacted at the end of 2022. Some of the changes were effective immediately, but others are just now becoming effective, and a few won't apply until after this year. Some of those changes are mandatory and must be implemented on a timely basis. However, others are optional, but can be beneficial to plan sponsors and their employees.

While decisions about plan management are fiduciary and must be made in the best interest of the participating employees, decisions about plan design are called "settlor" decisions and may be made in the best interest of the plan sponsor. As a result, plan sponsors can design their plans to accomplish their objectives for their workforces.

This article focuses on several critical provisions in SECURE 2.0, both mandatory and optional, for 2025 and 2026.

## SECURE Act 2.0 Changes and Their Impact

SECURE 2.0 introduced several significant changes that plan committees should have in mind for administering their plans. While plans are not required to be amended for SECURE 2.0 until the end of 2026, fiduciaries must operate plans in accordance with the new rules as if the plans had already been amended. Below are important mandatory changes that committees need to understand and apply, as well as an optional provision that plan sponsors can opt to apply.



### **Mandatory Inclusion of Long-Term Part-Time Employees**

The original SECURE Act (referred to as 1.0) required that, beginning in 2024, 401(k) plans include long-term, part-time (LTPT) employees for salary deferrals. Plan sponsors are not required to make contributions for those LTPT employees, but can if they want. SECURE 1.0 defined an LTPT employee as one who does not qualify under the plan as a full-time employee, but who works at least 500 hours for three consecutive years.

SECURE 2.0 reduced the eligibility period to two consecutive years of working at least 500 hours in each year. The LTPT employees who satisfy that requirement must be allowed to defer into the plan in January of 2025.

Additionally, the Act extends the LTPT rules to ERISA 403(b) plans, broadening the requirement for including part-time workers.

Plan committees need to ensure that their companies' systems are updated to track and manage the eligibility of these employees. If the eligible LTPT employees weren't allowed to defer (under the SECURE 1.0 rules) in 2024, plan sponsors should consult their advisers and attorneys about how to correct that failure.

Similarly, if the LTPT employees who became eligible under the new SECURE 2.0 requirements weren't allowed to begin deferring in January of 2025, plan sponsors should consult their advisers and attorneys about how to correct that failure.

### **Optional Increased Limits for Catch-Up Contributions**

Starting in 2025, participants aged 60 to 63 will be eligible for higher catch-up contributions to their retirement accounts. The new limit is 150% of the standard catch-up contribution amount. In 2025 the standard amount will be \$7,500 and the increased amount will be \$11,250. (These limits will be increased in the future for cost-of-living adjustments.)

This is an optional provision. Plans are not required to offer these higher limits, but it could help their older employees if the plan adds this feature.

If added, plan committees will need to coordinate with their providers and communicate these changes to the eligible participants.

### **Mandatory Roth Treatment for Certain Catch-Up Contributions**

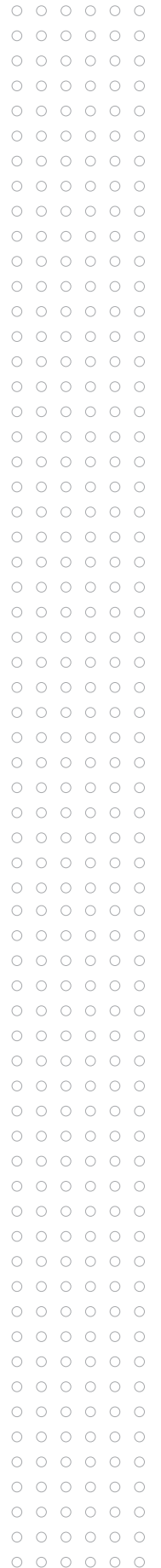
Effective in 2026, catch-up contributions for employees earning more than \$145,000 (indexed for inflation) in 2025 must be treated as Roth contributions. This requirement introduces operational complexity for plans that do not currently offer Roth options.

For a context, a Roth deferral is not deductible, but if the money is held in a Roth account long enough, the money, including earnings, will come out tax-free.

If a plan does not currently add Roth but wants to allow its higher compensated employees to continue to make catch-up contributions, it must add a Roth feature for all of its participants.

Note that this provision applies to W-2 earnings. As a result, this new requirement would not apply to sole proprietors or partners because they do not have W-2 wages.

Plan committees need to communicate these changes to affected participants so that they understand the issues and, if desired, can make deferral election changes for 2026.



## Conclusion

To understand and implement the new changes from SECURE 2.0, plan sponsors and committee members should consult with their advisers and providers. For some of the changes, e.g., Roth treatment of catch-up contributions, plan sponsors should make sure that their payroll providers can capture and report the needed information, e.g., that Roth contributions are not deductible and payroll taxes should be withheld on those amounts.

In addition, the implementation of these changes should be communicated to the affected employees. That includes, if added to the plan, the enhanced catch-up limits for employees who are ages 60, 61, 62, and 63. It also includes the Roth treatment of catch-up contributions in 2026 for employees who earned over \$145,000 in FICA wages in 2025. And, of course, it includes the notices to LTPT employees who can defer into the plans in 2025.

For plan sponsor use only. Not for use with participants or general public.

The views expressed in this article are the author's own and not necessarily those of Faegre Drinker or HUB International.

This material was created for educational and informational purposes only and is not intended as ERISA, tax, legal or investment advice. If you are seeking investment advice specific to your needs, such advice services must be obtained on your own separate from this educational material.

HUB Retirement and Private Wealth employees are Registered Representatives of and offer Securities and Advisory services through various Broker Dealers and Registered Investment Advisors, which may or may not be affiliated with HUB International. Insurance services are offered through HUB International, an affiliate. Consult your HUB representative for additional information about the provision of specific securities, investment advisory, and insurance services.

RPW-415-0225 (Exp. 02/27)

