Catch-Up — The Gift of Second Chances

The wonderful thing about second chances is that they exist.[1]

By Jack Towarnicky

Plan sponsors can offer various "catch-up" savings options. But, because "available" does not equal "use," access isn't enough. Plan sponsors should educate eligible employees about catch-up options and prompt use of those features.

Catch-Up — §§401(k), 403(b)

Catch-up contributions for workers aged 50 or older were added as part of the Economic Growth and Tax Relief Reconciliation Act of 2001. PSCA's *61st Annual Survey* shows that 88.5 percent of companies offer catch-up contributions and 51.1 percent of those that do, provide a match on employee catch-ups.

Many workers aren't saving enough for retirement or aren't saving at all.[2] Catch-up contributions are special — they are not considered when applying the:

- IRC §415(c) annual addition,
- IRC §402(g) maximum deferral limit, and
- IRC § 401(k) Average Deferral Percentage (ADP) test.

Catch-up contributions can be made on a pre-tax or Roth basis to a 2019 maximum of $6,000 — allowing additional saving among highly compensated employees when ADP test limits apply.

Catch-Up — §223(b)(3), Health Savings Account

Catch-up contributions were part of the initial authorization for HSAs. Because the HSA is an individually-owned custodial account, all eligible to contribute to an HSA can make catch-up contributions of up to $1,000 once they reach age 55.

Other "Catch-up" Options

HSA "Last Month Rule":

Are you adding a(nother) HSA-capable health option in 2020? If so, consider offering it starting December 1st 2019. If you do, those who enroll on 12/1 can make a full year's HSA contribution based on the tier of coverage in effect on 12/1; and, if age 55 or older, a full year's catch-up contribution as well!

After-Tax Contributions:

The 2019 defined contribution maximum annual addition is $56,000. IRC §401(a) after-tax contributions offer workers of all ages flexibility to "catch-up" (potentially improving your Average Contribution Percentage test results).

Deemed Individual Retirement Accounts:

A plan can add "Deemed IRAs" to allow every wage earner, regardless of age and compensation, to make a $6,000 contribution in 2019 (plus another $1,000 in "catch-up" for those age 50 or older). Deemed IRA contributions are not counted against the annual addition.

If you add after-tax and Deemed IRA contributions, you may want to also add in-plan Roth conversion functionality.

Communication

To be effective, you must perennially market your "catch-up" provisions — as only 29.3 percent of the participants age 50 or older who were eligible actually made 401(k) "catch-up" contributions in 2017, according to PSCA's *61st Annual Survey*.

This year, you will again hire individuals of all ages with varying levels of experience — some who haven't saved or haven't saved enough. Give the gift that keeps on giving — catch-up!

Jack Towarnicky is the Executive Director of PSCA.

[1] Felice Stevens, The Shape of You

[2] K. Elkins, How much money Americans are saving for retirement — and how much you need if you want to retire by 65, CNBC, 3/13/19, Accessed 5/21/19 at: https://www.cnbc.com/2019/03/12/most-americans-arent-saving-enough-to-retire-by-age-65.html