



Section 604

Provision	Section 604 – optional treatment of employer matching or nonelective contributions as Roth contributions.
Effective	Immediately, on contributions made after December 29, 2022
Mandatory	No, an optional provision subject to the plan sponsor’s discretion
Summary	<p>Plan sponsors of 401(k), 403(b), and governmental 457(b) plans may offer participants the ability to designate certain employer contributions as Roth contributions. This includes employer matching contributions, safe harbor contributions, and/or profit-sharing contributions. This will also apply to student loan matching if the plan provides for these contributions.</p> <p>To be eligible for Roth treatment the employer contributions must be 100% vested. Any elected amount would be considered taxable income to the employee and will be subject to withholding. The plan should already have Roth contributions as an option in the plan or will need to be amended to allow Roth contributions.</p>
Things to Consider	<p>Utilizing this provision in your plan comes with pros and cons that will need to be weighed in order to determine if it is the right fit for your plan.</p> <ul style="list-style-type: none"> • PRO - Ability of participants to manage their own tax situation. A participant that makes this election will owe income tax on the contribution but will avoid tax on qualified distributions¹ of both principal and income. • PRO - Intent was to streamline the already available option of in-plan ROTH conversions. Allowing participants to make this designation now would circumvent the need to make separate elections to convert later. Instead, the conversion to Roth is completed at the time the employer contributions are contributed. • CON – Employer’s payroll and other service providers will need to establish procedures to: <ul style="list-style-type: none"> ○ Facilitate employee election(s). ○ Ensure these employee-elected matching or nonelective contributions are treated and reported as taxable income. ○ Ensure proper tax withholding requirements for the elected amounts. • CON - 100% vesting requirement for a contribution to be eligible for Roth treatment. • CON - The plan will need to be amended to provide for this provision. SECURE 2.0 amendments are not due until 2025. • CON - There is no financial incentive for the employer to offer this option. The employer contribution will be deductible to the employer whether it is allocated to the participant’s account on pre-tax or after-tax basis.

¹ A qualified distribution is one that is made after age 59½, on death, or due to a disability but only after the participant has had—or is deemed to have had—a Roth account in the plan for at least five years.

Guidance Needed	<p>While this provision may prove to be appealing to many employees there are some unknowns that illustrate the impracticality of immediate implementation. As of the date of this document we are still awaiting guidance from the IRS regarding form language for the participants to make or revoke this election. We also do not have the guidance regarding the requirements for withholding, timing, and reporting of taxable income and the taxes withheld.</p>
MVP's Standpoint	<p>Those interested in the Section 604 provision may benefit from waiting for further IRS guidance. We are not suggesting this provision should be avoided forever, we only recommend not instituting before the rules and systems for the provision are finalized.</p> <p>Prior to implementation plan sponsors should consider how they will communicate the availability of this election to their employees. They will also need to provide employees with resources that explain the tax implications. It is possible that employees may experience an unpleasant surprise if ill prepared to pay the income tax on the employer contributions.</p> <p>Plans with employer contributions subjected to vesting schedules will need to contemplate how and when to offer participants the ability to make this election. Another consideration is to update vesting schedules to better facilitate an earlier implementation of this provision, i.e., change vesting schedule to immediate (100%) vesting for all employer contributions.</p> <p>In the meantime, utilizing the option to provide for in-plan Roth conversions makes it possible to achieve the same or comparable results.</p>

At MVP Plan Administrators, we are here to assist you every step of the way. Together, we can work toward a more secure retirement future for all.