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IRS focuses on 457(b), 403(b) plan catch-up contributions

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Catch-up contributions under Section 457(b) and 403(b) plans appear to be a new area of focus for IRS retirement plan audits. According to the Tax-Exempt and Government Entities (TE/GE) Division's fiscal year 2020 program letter, the agency intends to examine both types of plans for excessive contributions and proper application of the catch-up rules. IRS recently released two new issue snapshots discussing these contributions. The snapshots explain the rules for the different types of catch-up contributions, review recordkeeping requirements and highlight compliance issues IRS will review during an audit.

457(b) catch-up contributions

Governmental and tax-exempt 457(b) savings plans can allow participants who did not defer the maximum amount in earlier years to make special catch-up contributions in the last three tax years ending before normal retirement age. Participants age 50 or older in governmental 457(b) plans — but not tax-exempt 457(b) plans — are also eligible to make regular catch-up contributions but cannot make both regular and special catch-up contributions in the same year.

The 457(b) snapshot indicates that auditors will review a long list of issues involving catch-up contributions. Key issues include whether plan documents include the necessary language authorizing the catch-up contributions, deferrals comply with the basic and catch-up annual limits, and participants in governmental plans haven't made both types of catch-up contributions in the same year.

403(b) catch-up contributions

Like 401(k) and governmental 457(b) plans, 403(b) plans may allow participants age 50 or older to make regular catch-up contributions. In addition, certain 403(b) plans sponsored by "qualified organizations" may permit participants with 15 years of service to make special catch-up contributions. Both types of catch-up contributions are subject to an annual limit, but special catch-up contributions are also subject

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to a use test and a lifetime limit. When a plan allows both types of catch-up contributions, a coordination rule requires applying extra contributions to the special catch-up contribution before the age-50 catch-up.

The 403(b) snapshot notes that auditors will verify that plan documents authorize the catch-up contributions and plans offering both catch-up contributions correctly apply the ordering rules. IRS auditors will also check that the employer maintains the records necessary to calculate the contributions and has accurately calculated the contributions.

Related resources

- Issue snapshot: Section 457(b) plan of governmental and tax-exempt employers — catch-up contributions (IRS, June 4, 2020)
- Issue snapshot: 403(b) plans — catch–up contributions (IRS, May 6, 2020)
- Tax Exempt & Government Entities Division's fiscal year 2020 program letter (IRS, Oct. 17, 2019)

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