MANDATORY ROTH CATCH-UP CONTRIBUTIONS

An overview on the changes to Roth requirements

Background

Thanks to SECURE 2.0, many 401(k) plans will want to include Roth deferrals or remove their catch-up provision. This is because certain individuals will only be able to make catch-up contributions as Roth deferrals. This change is effective beginning January 1, 2026.

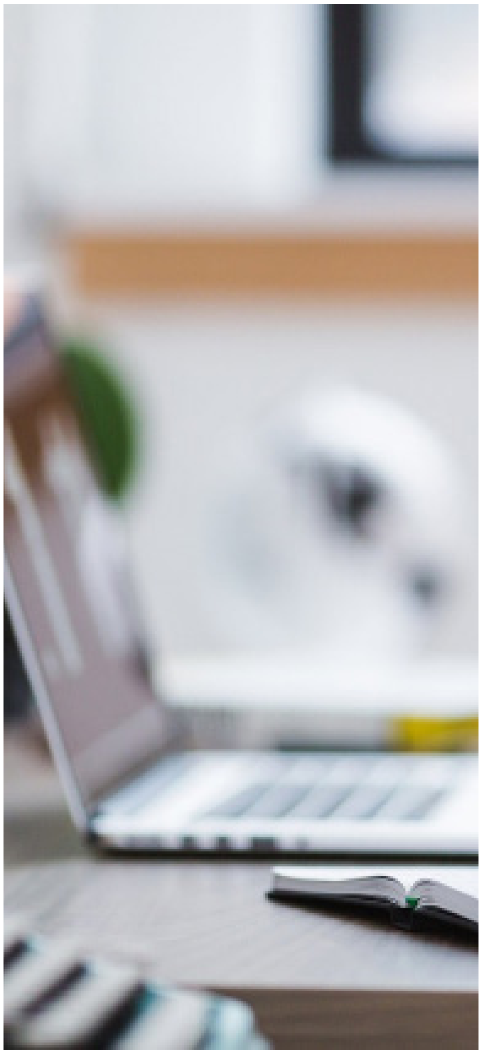
Specific requirements for the Roth deferrals

Beginning in 2026, highly paid individuals (any employee with pay over $150,000 in the prior year) who make catch-up contributions will be required to treat the catch-up portion as a Roth deferral—or they can't make it. The income threshold is based on FICA wages therefore this doesn't apply to certain business owners (e.g., sole proprietors, partners).

Impact

If a plan does not allow for Roth deferrals, highly paid individuals, age 50 and older, will not be able to take advantage of the catch-up contribution. If that is not enough reason to cause concern, the impact is potentially greater. Highly compensated employees who are deferring less than the annual limit often have deferrals recharacterized as catch-up contributions to avoid testing refunds. If the plan fails ADP testing, and Roth is not available in the plan, highly paid individuals with testing excesses will be required to take a refund because they won't be able to recharacterize these amounts as a catch-up. The same is true if other limits are unintentionally exceeded.

If Roth is permitted, the plan can use an in-plan Roth rollover feature to move amounts from a pre-tax deferral account to a Roth deferral account to correct a situation where a highly paid individual, over age 50, made a pre-tax catch-up contribution.



Recommended action

We recommend including Roth deferrals in any new 401(k) plan and amending any current plans to allow Roth in advance of this change. On top of this, also make sure to include the option for in-plan Roth rollovers and transfers so that this feature can be used to move amounts from pre-tax to Roth when necessary.