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Professional Benefit Services, Inc.

FIDUCIARY EDUCATION

# Understanding the Roth Catch-Up Mandate for High Earners

**What employers need to know about the upcoming Roth catch-up requirement for higher-earning employees**

A SECURE 2.0 provision is changing how some employees make catch-up contributions. Employers will need to prepare their payroll and plan processes now to stay compliant when the Roth catch-up mandate takes effect.

## What is the new Roth catch-up rule?

Beginning in 2026, catch-up contributions made by certain higher-earning employees must be deposited as Roth contributions, not pre-tax. This rule applies to employees who:

- AGE 50 OR OLDER
- EARNED MORE THAN $150,000*
- MAX OUT THEIR 401(K)

For these individuals, catch-up contributions must be made on a Roth basis once they reach regular deferral limits. Standard employee deferrals are not affected.

## Implementation options for employers

Employers have several potential paths to comply with the new rules. The best approach will depend on payroll capabilities, recordkeeper functionality, and internal processes.

1. Require a separate Roth election for catch-up contributions.
2. Automatically deem high earners' catch-up contributions as Roth.
3. Eliminate catch-up contributions entirely.

These options vary in how they affect payroll processing, participant communication, and plan administration. Employers can consider which approach best matches their systems, the level of complexity they want to manage, and how the strategy aligns with their broader company goals and benefits philosophy.

## Reviewing options

### 1. Require a separate Roth election for catch-up contributions

Plans may choose to have participants make a distinct election for catch-up contributions. Key considerations:

- Contributions only qualify as catch-up after the participant reaches the annual limit.
- Applying Roth too early can cause misclassification and errors.
- Systems must apply the Roth rule only when true catch-up dollars start.

### 2. Automatically deem high earners' catch-up contributions as Roth

Employers may adopt a "deemed Roth" approach where individuals identified as high earners automatically have their catch-ups treated as Roth.

Important notes:

- Participants must still have a meaningful opportunity to opt out of making catch-up contributions entirely.
- This method can reduce administrative friction and simplify payroll processing.

### 3. Eliminate catch-up contributions entirely

While eliminating catch-up contributions is allowed, it can reduce savings opportunities for pre-retirees. It may ease administration, but employers should consider how removing this feature could affect long-term retirement readiness.

- Reduces flexibility for employees who want to save more.
- Simplifies administration but may not align with benefits goals.

**If you'd like help reviewing these options for your plan, we're here to support you.**

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*If prior year (2025) W-2 wages subject to FICA were $150,000 or more, IRS rules under SECURE 2.0 require that catch-up contributions be made as Roth contributions beginning in the 2026 tax year.

This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements, and you should consult your attorney or tax advisor for guidance on your specific situation.

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