

EMPLOYEE BENEFITS

INFORMATION MEMO

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Plan Sponsors Must Address the Roth Catch-Up Contribution Mandate by January 1, 2026

The Internal Revenue Service has at long last issued final regulations with respect to the Roth catch-up contribution mandate, which was added to the Internal Revenue Code three years ago. The regulations require that 401(k), 403(b) and governmental 457(b) plan sponsors be prepared to administer the new mandate beginning on January 1, 2026. This information memo explains the new mandate and what decisions must be made and actions taken in the next three months to prepare.

Background

The Roth catch-up contribution mandate was enacted as part of the SECURE Act 2.0 in December 2022. “Catch-up contributions” are employee contributions that can be made by participants, age 50 or older, to 401(k), 403(b) and governmental 457(b) plans, in excess of the regular limit on elective deferrals. The limit can be the statutory annual limit on elective deferrals (\$23,500 for 2025) or a lower plan limit. Catch-up contributions are intended to permit older participants to “catch up” on their retirement savings during the years preceding retirement.

Section 603 of the SECURE Act 2.0 requires that catch-up contributions by certain “high-income earners” – those with FICA wages of more than \$145,000 in the previous year – be made as after-tax Roth contributions, rather than as pre-tax deferrals. Previously, eligible participants could elect to make catch-up contributions either on a Roth or a pre-tax basis, provided that the plan permitted Roth contributions.

In addition, before 2025, annual catch-up contributions were limited to \$7,500 per participant. The SECURE Act 2.0 also increased that limit to \$11,250 for participants age 60 to 63. The annual limit on these “super-catch-up” contributions will be indexed for inflation in future years.

Which Participants are Subject to the Roth Catch-Up Contribution Mandate?

As noted, the new Roth catch-up mandate applies, beginning January 1, 2026, to participants age 50 and older who had FICA wages in the preceding year of more than \$145,000. (Note: The statutory wage threshold is indexed for inflation beginning in 2025; the threshold that will be used to identify high-income earners in 2026 has not been announced yet, but is projected to be \$150,000.) The plan sponsor is responsible for identifying its high-income earners. The FICA wages used for this purpose are those reported in Box 3 of the participant’s Form W-2.

Generally, the wages taken into account are those paid by the participant’s common law employer. However, the final regulations include a rule that permits (but does not require) the employer to aggregate a participant’s wages from certain other employers for purposes of determining whether the participant is subject to the Roth mandate. This optional aggregation is available to sponsors who are members of a “controlled group” of affiliated companies, as defined in the Internal Revenue Code and employers who have a “common paymaster” relationship with other employers.

Implementation of the Roth Catch-Up Mandate

Plans That Do Not Permit Roth Contributions

Plans are not required to permit participants to make Roth contributions or catch-up contributions. However, if a plan permits catch-up contributions but does not include a Roth contribution option, high-income earners cannot be permitted to make catch-up contributions at all, since their catch-up deferrals must be Roth. Accordingly, the sponsor of a plan that does not have a Roth contribution option must still track its employees' FICA wages to ensure that high-income earners are not permitted to make catch-up contributions.

Plans that do not permit catch-up contributions are not required by the SECURE Act 2.0 or the final regulations to add a catch-up option.

Plans That Permit Roth Contributions

In general: Compliance with the Roth catch-up contribution mandate is not the responsibility of participants. The employer/plan sponsor must administer participant elections in such a way that ensures that catch-up contributions by high-income earners are made as after-tax, Roth contributions.

For plans with a Roth catch-up option, the IRS has specified that the option must be available to all catch-up eligible participants (those age 50 or older), regardless of wages. In other words, a plan cannot limit Roth catch-up contributions to high-income earners.

The final regulations also state that a plan cannot simply treat all catch-up contributions as Roth contributions in order to avoid tracking which participants are over the wage threshold and therefore subject to the Roth mandate.

Deemed Roth Elections: The final regulations state that a plan may automatically treat deferrals by a high-income earner as Roth contributions once the statutory annual limit on "regular" deferrals (currently \$23,500) is reached, even if the participant did not make such an election. Importantly, the final regulations state that, in order to be able to correct failures to properly administer the Roth catch-up mandate (see below regarding corrections), a plan sponsor must:

- amend the plan to incorporate this "deemed Roth election" rule, and
- provide high-income earners with an "effective opportunity" to make an affirmative election that is different from the deemed Roth election.

It is not clear what such an "effective opportunity" requires, but at minimum the employer should ensure that participants are aware of the deemed Roth election rule before deferral elections are made for a plan year.

The deemed Roth election method may be applied in two different ways. The deemed Roth election could be triggered only to the extent that the participant had not previously elected Roth contributions up to the applicable catch-up limit, or without regard to any such previous Roth deferrals. Sponsors must decide which of these methods will work best for them.

Whichever type of deemed election is chosen, the deemed Roth election method, if properly administered, should allow sponsors to comply with the Roth catch-up mandate in most cases and to have correction methods available (see below) in the event of occasional failures.

Note that the necessary plan amendment to use the deemed Roth election method is not required to be adopted immediately. The regular deadline for SECURE Act 2.0 amendments – December 31, 2026 – applies for most plans. Later deadlines apply for 403(b) plans and governmental plans, including governmental 457(b) plans.

Determining High-Income Earners Subject to the Roth Catch-Up Requirement

In most circumstances, determining high-income earners likely will not be problematic. However, sponsors should be aware that in some situations, employees who are generally perceived to be high earners will not be subject to the Roth catch-up requirement.

- Mid-Year Hires: The \$145,000 threshold is not prorated for participants who are hired midway through the year. Thus, even if the stated annual salary of a new hire exceeds the wage threshold, if the employee did not actually earn wages over the threshold because they were hired mid-year, the employee will not be subject to the Roth contribution mandate in the following year.
 - For example, if an employee is hired on July 1, 2025, with an annual salary of \$200,000 and earns FICA wages of \$100,000 with the employer in 2025, the employee is not required to make catch-up contributions in the form of Roth contributions in 2026.
- Affiliated Employers: Absent an exception, FICA wages are based on wages received from the participant's common law employer. Accordingly, assuming that the sponsor does not choose not to aggregate wages paid by affiliated employers, employees who transfer to an affiliate mid-year will not have their wages from their original employer count toward the threshold for that year.
- Self-Employment: Amounts paid to self-employed individuals (including those in partnerships) are generally not classified as FICA wages. Thus, if an individual did not receive pay classified as FICA wages from their employer in the prior calendar year, they are not subject to this restriction.

Correction Methods and Deadlines

The final regulations provide for two optional ways that a plan can correct an inadvertent treatment of a catch-up contribution by a high-income earner as a pre-tax deferral. To use either of these correction methods, the plan must have documented policies and procedures in place to comply with the Roth contribution mandate and must utilize a "deemed Roth election" method for all affected participants. The available correction methods are:

- Correction on Form W-2: The contribution mistakenly treated as pre-tax (adjusted for earnings) is transferred to the participant's Roth account and reported (not including earnings) on the high-income earner's Form W-2 for the year. This correction method is only available if the participant's W-2 has not yet been issued; issuance of W-2s for a year is generally required by January 31 of the following year.
- In-Plan Roth Rollover: The contributions (adjusted for gains and losses) are transferred to the participant's Roth account by means of an in-plan rollover, and the aggregate amount is reported on a Form 1099-R for the year of the rollover.

Employers are not required to undertake corrections for pre-tax deferrals (that should have been treated as Roth contributions) of \$250 or less, or if a participant's FICA wages exceed the threshold because of an amended Form W-2 that is not issued until after the applicable correction deadline.

Next Steps

Before January 1, 2026, plan sponsors should:

- Review the plan documents to determine whether the plan contains a Roth feature and work with counsel and any third-party administrators to amend the plan to allow for a Roth option.
 - As noted above, adding Roth contributions is optional. However, if a plan with a catch-up contribution feature does not allow Roth contributions, participants with prior year FICA wages in excess of the threshold are not permitted to make any catch-up contributions.
- Review their payroll systems to ensure that FICA wages for 2025 are accurately tracked to determine which participants will be high-income earners subject to the Roth contribution mandate effective January 1, 2026.
- Choose which type of deemed Roth election to use and consider adopting a plan amendment that reflects this choice. At minimum, sponsors should coordinate with the plan's third-party administrator and their payroll provider to ensure that deemed Roth elections and opt-out elections will be administered properly.
- Provide employees with a notice before deferral elections are made for 2026 explaining the new Roth contribution mandate, their options for electing catch-up contributions, and if applicable, how the deemed Roth election provision will work and how they can make a different election.

For more information, please contact [Hailey Trippany](#), any attorney in [Bond's employee benefits practice](#) or the Bond attorney with whom you are regularly in contact.

