PREPARING FOR THE 2026 ROTH CATCH-UP CONTRIBUTION MANDATE IN EMPLOYER PROVIDED RETIREMENT PLANS

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Executive Summary

Beginning **January 1, 2026**, employees aged **50 and older** earning **over $145,000** in the prior year must make **catch-up contributions** to their 401(k) plans **on a Roth basis**. This change, mandated by the **SECURE 2.0 Act**, requires employers to offer Roth features or risk disqualifying high earners from making catch-up contributions altogether.

This whitepaper outlines the regulatory changes, their implications, and provides actionable strategies for employers and employees to ensure compliance and optimize retirement outcomes.

REGULATORY HIGHLIGHTS

- **Mandatory Roth Catch-Up Contributions**: High earners (prior-year wages > $145,000) must make catch-up contributions using **after-tax Roth dollars**.
- **Plan Feature Requirement**: Employers must offer a **Roth 401(k)** option or **disallow catch-up contributions** for affected employees.
- **Income Threshold Indexed Annually**: The $145,000 threshold will adjust for inflation.
- **Super Catch-Up Provision**: Employees aged **60–63** may contribute up to **$11,250** in catch-up contributions in 2025.

Plans Subject to the Roth Catch-Up Requirement

Starting in **2026**, employees aged **50 and older** with **prior-year FICA wages over $145,000** must make **catch-up contributions on a Roth basis** in the following plans:

- **401(k) plans**
- **403(b) plans**
- **Governmental 457(b) plans**

If these plans do **not offer a Roth option**, affected high-income employees will **not be allowed to make catch-up contributions at all**.

Plans Exempt from the Roth Catch-Up Requirement

The following plans are **not subject** to the Roth catch-up mandate:

- **SIMPLE IRAs**
- **SEP IRAs**
- **SARSEPs**
- **Starter 401(k) plans**
- **Safe Harbor 403(b) plans**

Participants in these plans may continue making **pre-tax catch-up contributions**, regardless of income level.

Individual 401(k) Plans (Solo 401(k))

While not explicitly named in the final regulations, **Individual 401(k) plans** are generally treated as **401(k) plans** under IRS rules. Therefore:

- If the plan allows catch-up contributions and the participant earns over $145,000 in FICA wages from the sponsoring entity, the **Roth catch-up requirement likely applies**.

Solo 401(k) participants should confirm with their plan provider whether Roth catch-up contributions are supported and whether their income triggers the rule.

3 Things Employers Should Do ?

Consider amending Retirement Plans to Include Roth Features

Why: Without a Roth option, high earners will be **barred** from making catch-up contributions.

Action Steps:

- Review current plan documents with your recordkeeper and ERISA counsel.
- Amend plans to include Roth contribution capability by **December 31, 2026**.
- Ensure payroll systems can identify eligible employees based on **Box 3 FICA wages**. [National Association of Plan Advisors]

"Employers must act now to preserve catch-up contribution eligibility for high earners. Begin plan amendments and system upgrades before Q2 2026."

COORDINATE PAYROLL AND RECORDKEEPING SYSTEMS

Why: Accurate identification of high earners is essential for compliance.

Action Steps:

- Integrate payroll and recordkeeping systems to track prior-year wages.
- Automate Roth routing for catch-up contributions.
- Train HR and payroll teams on new compliance workflows.

"Ensure your payroll systems are Roth-ready. Coordinate with vendors to implement wage tracking and contribution routing by year-end."

Why: Employees may be unaware of the tax and eligibility implications.

Action Steps:

- Launch an education campaign explaining Roth catch-up rules.
- Provide personalized guidance based on income and age.
- Offer Roth vs. Traditional contribution modeling tools.

“Educate your workforce now. Use webinars, FAQs, and one-on-one sessions to prepare employees for Roth catch-up contributions.”

4 Things Employees Should Consider

1. Review Your 2025 Income

Why: Your **2025 W-2 wages**, specifically **Box 3 (FICA wages)**, determine whether you must make **Roth-only catch-up contributions** in 2026.

Action Steps:

- Check Box 3 on your 2025 W-2.
- If your wages exceed **$145,000**, you are **required** to make catch-up contributions to the **Roth portion** of your 401(k).
- Confirm your employer offers a **Roth 401(k)** option. If not, you may **lose eligibility** to make catch-up contributions entirely.

2. Understand consequences of contributing to the Traditional 401(k) Instead of Roth in 2026

If you are a high-income earner (over $145,000 in 2025) and mistakenly make catch-up contributions to the **traditional (pre-tax)** portion of your 401(k) in 2026:

Non-Compliance Risk

- Your contributions will **not be treated as valid catch-up contributions** under IRS rules.
- The plan may be considered **out of compliance**, triggering corrective action requirements for both the employer and participant.

Tax Consequences

- The IRS may **reclassify** the contributions, potentially treating them as **excess deferrals**.
- You may be required to **remove the excess contributions** and any earnings by **April 15, 2027**.
- If not corrected timely, the excess may be **double taxed**:
    - Taxed when contributed (as income).
    - Taxed again when withdrawn in retirement.

Penalties

- Failure to remove non-compliant contributions may result in:
  - **6% excise tax** on excess contributions under **IRC Section 4973**.
  - Potential **loss of tax-deferred growth** on earnings.
  - Additional penalties if the plan fails nondiscrimination testing due to incorrect contribution classification.

"Review your 2025 W-2 now. If your income exceeds $145,000, plan for Roth-only catch-up contributions in 2026. Making traditional catch-up contributions could result in tax penalties and disqualification. Confirm your employer's Roth 401(k) availability and adjust your deferral elections accordingly."

3. Evaluate Roth vs. Traditional Tax Strategy

Why: Roth contributions are taxed upfront but grow tax-free. This could impact your tax planning strategies for your current year, so you may need to work with your tax advisor to identify additional tax deductions or adjust your withholding.

Action Steps:

- Consult a financial advisor to model future tax scenarios.
- Consider Roth if you expect higher retirement tax rates.
- Use multi-year projections to optimize contribution strategy.

"Schedule a retirement planning session before 2026 followed by a conversation about proper withholding with your tax advisor. Determine which type of contributions align with your long-term goals."

4. Explore Alternative Retirement Vehicles

Why: If your employer doesn't offer Roth, you may lose catch-up eligibility. There maybe alternative solutions available to you to help achieve similar goals or needs.

Action Steps:

- Consider contributing to a Roth IRA (if income limits allow).
- Employers might consider exploring defined benefits or cash balance plans for higher savings.
- Work with a trusted financial advisor to coordinate your retirement assets and saving strategies that work best for you and your situation. Be sure to take advantage of employer benefits when able but if employer benefits fall short there are other strategies available that are outside your traditional employer benefits packages that might better align with your goals and meet multiple needs over time.

"Don't lose retirement momentum. Explore Roth IRAs or alternative plans if your employer lacks a Roth 401(k) option."

CONCLUSION

The 2026 Roth catch-up mandate is more than a tax change—it's a strategic inflection point for retirement planning. Employers must act swiftly to preserve plan integrity and employee benefits. Employees must adapt their savings strategies to maintain retirement planning momentum.

KEY TAKEAWAYS FOR EMPLOYERS

- **Employers and Plan sponsors** must ensure Roth features are available in applicable plans by **January 1, 2026**.
- **SIMPLE and SEP IRA participants** are not impacted by the Roth catch-up mandate but may still benefit from reviewing contribution strategies
- **Identify potentially impacted employees** and educate them impact changes may have them.

KEY TAKEAWAYS FOR EMPLOYEES

- Confirm your employer offers a **Roth 401(k)** option. If not, you may **lose eligibility** to make catch-up contributions entirely.
- Identify if your wages exceed **$145,000**, make adjustments to your contributions and allocations, if necessary.
- Consult with your Financial advisor and Tax professional to understand impacts and alternative savings strategies.

Let's Talk About Your Retirement Strategy
🗓️ Schedule your Retirement Income Review today:

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