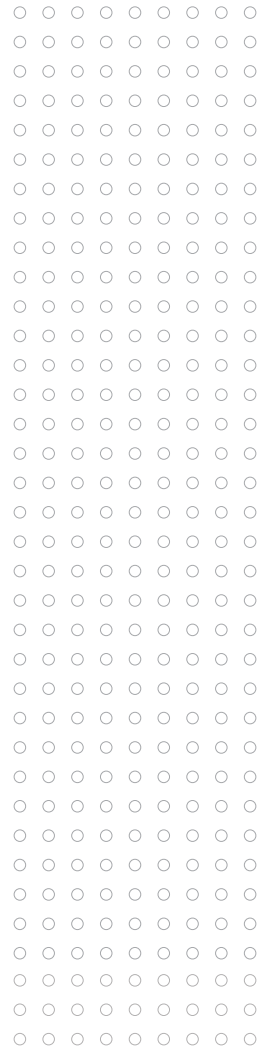


# Catch-Up Contributions for Higher Paid Employees Must Be Roth in 2026 and Beyond

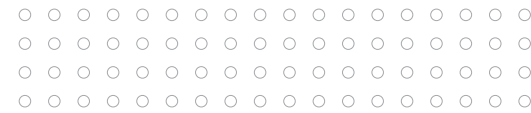


## Summary of Key Issues and Decisions for Plan Sponsors<sup>1</sup>

Topic	What's Changing	Plan Sponsor Actions	Timeline for Implementation
<b>Catch-Up Contributions</b>	Must be Roth for higher paid participants starting in 2026	Decide whether to allow Roth contributions in your plan	By the end of 2025, so that it is in effect for 2026
<b>Coordination with Providers</b>	Payroll and recordkeepers must properly process Roth catch-up deferrals	Notify and align systems and procedures	No later than December 1, 2025, so that there is time for communications
<b>Plan Amendments</b>	Plans must permit Roth if higher paid participants are to make catch-up contributions	Amend plan documents as needed	By the end of 2025, so that it is in effect for 2026
<b>Employee Communication</b>	Affected participants must understand Roth treatment (if Roth is permitted by the plan) or loss of catch-up option for higher paid participants if not added	Distribute educational materials and updated election forms	Communicate with affected participants so that they can consider their options, make a decision and file an election form for 2026 catch-up deferrals



<sup>1</sup> Source: Section 414(v)(7) from Section 603 of the SECURE Act 2.0; IRS final regulations, 90 FR 44527 (Sept. 16, 2025)



In 2026—just months away, sponsors of 401(k) and 403(b) plans must treat catch-up contributions by higher paid employees as Roth deferrals or prohibit their higher paid employees from making catch-up contributions. That is a major change in the law; decisions need to be made in the next few months, and plan sponsors need to work with their payroll providers and recordkeepers to have new practices, and employee communication materials, in place before the end of this year.

This article explains the new requirements and the options available to plan sponsors, including some important definitions.

## The New Rule and How it Works

The new requirement—that catch-up contributions for higher paid participants must be treated as Roth contributions—applies to the 2026 plan year. Since most covered plans are on the calendar year, this article uses the calendar year for explaining how the rules work.

The IRS issued its final regulations under the new rules on September 16, 2025. Since the rules will apply just months after that—at the beginning of 2026—the IRS says that good faith compliance will be required for 2026, but strict compliance will be required in 2027 and beyond. Even with that, the safest approach is for plan sponsors to fully comply with these detailed rules beginning in 2026.

Beginning in 2026, all catch-up deferrals by higher paid participants will be taxable to them; that is a mandatory rule. There aren't any exceptions. As a result, plan sponsors must make decisions and communicate them to the employees this year. There are two alternatives:

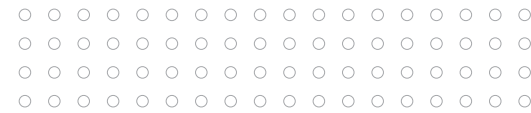
- 1. Add Roth Accounts to the Plan:** If a plan doesn't allow Roth deferrals now, the plan will need to be amended to allow Roth deferrals. (Technically, the IRS only requires that all eligible catch-up participants be able to make Roth catch-up contributions; however, as a practical matter plan sponsors are likely to decide, in this case, to allow all participants to make Roth deferrals.)

A question has been raised, and answered, whether a plan could force all catch-up deferrals to be treated as Roth deferrals, for both higher paid and non-higher paid participants. The answer is “no”. The IRS has said that the non-higher paid participants must be allowed to decide whether to make Roth or traditional deferrals for their catch-up contributions.

If the opportunity to make Roth deferrals is added to a plan for 2026, a plan sponsor should work with its recordkeeper and payroll service provider to ensure that the feature is properly reported and administered. In addition, educational materials and election forms should be created and distributed to the participants before the end of this year.

Of course, if a plan already allows for Roth deferrals, the only change is that the catch-up deferrals of higher-paid participants in 2026 (and beyond) will be treated as after-tax Roth deferrals.

- 2. Prohibit Higher-Paid Participants from Making Catch-Up Contributions:** If a plan does not currently allow Roth accounts, and the plan sponsor decides that it will not add a Roth feature, then the higher paid participants cannot make catch-up contributions in 2026 or beyond. In most cases, that will be a significant decision, since it will cap the ability of higher paid employees to save through their plans. In that case, plan sponsors should develop and circulate information about the change before the end of this year.



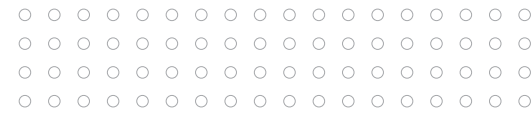
## Important Definitions:

- 1. Roth Treatment:** A traditional deferral is “pre-tax,” that is, it is not included in a participant’s taxable income when made. Then, when the account is distributed (e.g., at retirement), it is taxable as ordinary income (unless it rolled to an IRA, but it will then be taxed when taken out of the IRA). On the other hand, a Roth deferral is “after-tax,” meaning that the participant has to pay income taxes the year the money is taken out of the paycheck, as if the participant received the money. However, the contributions come out of the plan tax free and, if the participant satisfies certain conditions (e.g., the money is in the plan for five years before it is taken out), the earnings will also be tax free when distributed. In addition, money held in Roth accounts is not subject to the RMD (required minimum distribution) requirements, which may be attractive to higher paid employees.
- 2. Higher Paid Employee:** To make matters confusing, a “higher paid employee” is different than a “highly compensated employee.” For purposes of the Roth catch-up requirement, a participant is “higher paid” for the 2026 year if the participant made more than \$145,000 in FICA wages from the plan sponsor in 2025—this year. (Note that FICA wages may be different than compensation reported in Box 1 of the Form W-2. Instead, FICA wages are reported in Box 3 of the Form W-2.)

The \$145,000 will be increased for cost-of-living in the future and, for each year in the future, a plan will determine “higher paid” based on the participant’s compensation in the prior year. One curiosity in the law is that, if a person makes more than \$145,000, but the compensation is not FICA wages, the Roth requirement does not apply. Examples include sole proprietors (Schedule C income—not W-2) and partners (K-1 income—not W-2).

Also, the definition of “highly compensated employee,” or HCE, is different. It’s higher. If a participant earns more than \$160,000 in 2025, he or she will be an HCE. In addition, if a participant owns more than 5% of the plan sponsor, that participant is an HCE. The HCE definition is used for plan qualification testing, but it does not apply to the Roth catch-up discussion.

- 3. Catch-Up Contributions:** A “catch-up contribution” is an opportunity for older employees to make larger deferrals to 401(k) and 403(b) plans. The purpose is to allow older employees, who are closer to retirement, to make additional deferrals if needed for a financially secure retirement. A participant is first eligible to make these additional deferrals in the year in which the participant turns 50. For 2025, the additional amount is \$7,500 (and it will be increased for cost-of-living in the future). Then, for the years that include a participant’s 60 through 63 birthdays, a participant can make “super” catch-up deferrals of up to \$11,250 (to be increased for cost-of-living in the future).



## Action Steps for Plan Sponsors

These new rules require that plan sponsors go through a number of steps which should be completed before the end of this year:

- **Decide:** If a plan does not currently offer Roth accounts, a decision needs to be made about whether to add them for 2026.
- **Communicate:** If Roth accounts will not be added to the plan, there should be communications to higher paid employees that they will not be able to make catch-up contributions in 2026 and should, if desired, maximize their catch-up contributions this year.
- **Coordinate:** If Roth accounts are permitted by the plan, or if they will be added, the plan's recordkeeper and the sponsor's payroll service provider should be notified, and they should be prepared to treat the catch-up contributions of higher paid participants as Roth deferrals in 2026.
- **Educate:** Educational materials should be prepared and distributed well before the end of the year to the affected participants if Roth accounts are added and to the higher paid employees about either the loss of their ability to make catch-up contributions or about force Roth treatment in 2026.
- **Clarify:** New deferral elections forms should be distributed to higher paid employees so that they can elect to not make catch-up contributions should they decide that Roth isn't appropriate for them. (Fortunately, the IRS has said that, if the higher paid participants are informed, but don't file to change their elections, plan sponsors can continue to use the election forms from the prior year.) If a Roth feature is added to the plan, new deferral election forms should be distributed to all participants.

## Final Thoughts

This new requirement introduces complexity and the possibility of penalties if not complied with, but also an opportunity to enhance retirement savings options for employees. Taking action now will help to ensure smooth implementation and compliance with the law.

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