



## Best practices: Mandatory Roth Catch-Up Contributions under SECURE 2.0

### Background

On September 15, the IRS released final regulations under SECURE 2.0 addressing catch-up contributions. Under the final regulations, plan sponsors must implement Roth catch-up contributions in good faith beginning January 1, 2026, for retirement plan participants age 50 or older who earned more than \$150,000 in Federal Insurance Contributions Act (FICA) wages from their employer in 2025 (high earners). Operating in good faith gives plan sponsors time to resolve any issues before the IRS begins enforcing the new regulations on January 1, 2027.

The guidance emphasizes coordination among stakeholders, flexibility in communication strategies, and proactive monitoring of contribution limits. Effective coordination among service providers is also essential to manage plan design variability. For example, a company using multiple payroll systems and a third-party administrator may hold regular meetings to ensure consistent application of Roth catch-up contribution rules across all platforms and vendors.

The following industry best practices are designed to promote consistency, compliance, and operational efficiency among payroll providers, plan sponsors, recordkeepers, and third-party administrators (TPAs).

### Best Practices

#### 1. Understand the Catch-Up Elections

Under SECURE 2.0, plan sponsors have several options for implementing the Roth catch-up contribution requirement for high earners. One option, the deemed Roth catch-up election, allows employers to adopt a policy that automatically converts pre-tax catch-up contributions to Roth once a participant exceeds the IRS 402(g) limit (e.g., \$24,500 in 2026). Accurate contribution monitoring is critical, requiring payroll systems to separately track pre-tax and Roth deferrals. For example, the



system can be configured to detect when the limit is reached and automatically redirect subsequent catch-up contributions to Roth, minimizing the need for manual intervention.

Plan sponsors typically implement this policy at the start of the year and notify participants in writing, allowing them to opt out if desired.

Another option, the separate election for pre-tax and Roth catch-up contributions, allows a participant to choose in January to have all catch-up contributions designated as Roth-regardless of whether they exceed the IRS 402(g) limit during the year.

Additional election options include spillover and no Roth.

Please see the table below for a comparison of the main catch-up election methods available.

Method	Description	Who It Applies To	Pros
<b>Separate Election</b>	Participants make a distinct election for catch-up contributions	All participants: Roth mandatory for high earners (FICA > \$150,000)	Clear participant control Straightforward compliance
<b>Spillover Election</b>	Participants make a single election; catch-up contributions begin after 402(g) limit is satisfied	All participants: Roth mandatory for high earners (FICA > \$150,000)	Familiar design Less participant confusion
<b>Deemed Roth Election</b>	Catch-up contributions automatically treated as Roth for high earners when necessary	High earners (FICA > \$150,000)	Simplifies compliance Reduces participant error
<b>No Roth Election</b>	Catch-up contributions disallowed for high earners in plans without Roth deferrals	High earners in non-Roth plans	No need to implement Roth

## 2. Roth Catch-Up Identification

Employers should coordinate with their recordkeeper to determine how to best communicate which employees are eligible for Roth catch-up contributions based on prior-year FICA wages. Many recordkeepers are using a Roth catch-up indicator to identify employees age 50 or older who earned more than \$150,000 in FICA wages during 2025.

## 3. Participant Communication

Participant communications should clearly outline the rules for Roth catch-up contributions. For example, the Summary Plan Description (SPD) and annual notices may include a dedicated section explaining the automatic Roth catch up contribution options. Messaging should be adaptable to the



audience and may require more detailed or customized language depending on plan administration to ensure clarity and compliance.

## 4. Errors and Corrections

Plan sponsors that offer a deemed election, should be aware of the two correction methods.

- **Form W-2 correction** involves recharacterizing pre-tax catch-up contributions and earnings as Roth and reporting the contribution, but not the earnings, on Form W-2 for the year of the contribution, provided the correction is made before prior the W-2 is issued. This option is unavailable once the W-2 is finalized.
- **Form 1099 correction** converts pre-tax catch-up contributions and earnings to Roth and reports the total amount on Form 1099-R. It may be used if the error is identified after the plan year ends or if a recordkeeper or a TPA discovers the error during annual compliance testing.

## 5. Plan Sponsor Action Checklist

Questions for Payroll Providers:

1. Can you identify employees who earned more than the \$150,000 in FICA wages for 2025?
2. Can you provide the report by the first payroll in 2026?
3. Can you track pre-tax and Roth deferrals separately?
4. Will you automatically switch catch-up contributions to Roth once the IRS 402(g) limit is reached?
5. Will you revert to original deferral elections on January 1 each year?

Questions for Recordkeepers:

1. Will you assist in updating plan documents to reflect Roth catch-up deferrals?
2. How will you coordinate with our payroll provider to ensure accurate date exchange?
3. What catch-up election options are available to the plan?
4. Will you help communicate changes to participants, including Roth election options?

## Detailed Examples

### *Example One: Deemed Roth Catch-Up Election*

John elects to contribute \$26,000 in 2026. Once his pre-tax deferrals reach the IRS 402(g) limit of \$24,500, the remaining \$1,500 is automatically treated as a Roth catch-up contribution under the deemed election.

### *Example Two: Error Correction Methods*

A payroll provider mistakenly processes \$2,000 of pre-tax catch-up contributions as Roth. The recordkeeper identifies the error during year-end testing. Using the Form 1099-R correction method,

the \$2,000 in pre-tax deferrals is converted to Roth and reported as taxable income.

#### *Example Three: Election Methods*

Plan A uses the spillover method. Emily elects a single deferral rate, and once she reaches the 402(g) limit, her catch-up contributions automatically spill over as Roth. In contrast, Plan B uses the separate election method. Mark specifies a separate rate for catch-up contributions, and his payroll provider designates all catch-up as Roth for the year.

Sources:

[IRS RIN 1545-BR11 RE: Catch-Up Contributions](#)

[SPARK Institute](#)

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