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The New Roth Catch-Up Rules (Webinar Recording)

Lisa Caito: Hello everyone. My name is Lisa Caito and I'm the Director of Retirement Plan Consulting here at CAPTRUST, and I'm excited to be joined today by Evan Melcher, a seasoned institutional advisor based in Alpharetta, Georgia, with over 25 years of experience in the industry. Today we're gonna be tackling an important topic that's been on the horizon for a while, secure 2.0, mandatory Roth catch up contributions, and what it means for your plan.

We will cover what's changing, when it takes effect, and what steps you need to take to stay compliant. By the end of this session, you'll have a clear roadmap for 2026 and beyond. Next slide, please. I next slide.

Before we get started, I'd like to go over a few housekeeping items that you know how to best participate in today's event. You have joined the presentation listening with your computer speaker system. By default, all attendee lines are automatically muted and listening only mode. You will have the opportunity to submit text questions today by typing your questions in the q and a box on your consult.

You can view or minimize the q and a box by selecting the icon at the bottom of your screen. You may end your question at enter your questions at any time during the presentation. Due to the number of attendees, we will be presenting the information today and should only take about 30 to 40 minutes.

With this in mind, we will be collecting all questions and addressing them post event. Today's webinar is being recorded and you will receive a follow-up email within a week with a link to the email to the view the recording. The slides will also be available post event. Next slide. Just a reminder, this presentation is educational and is not legal or tax advice for personal retirement planning.

Reach out to you to your CAPTRUST advisor. Next slide please.

So let's dive in. Secure 2.0 became law about three years ago, back on December 29th, 2022. Originally, the Roth Catchup rule was set to begin on January 1st, 2024, which only allowed us less than a year to implement. But the IRS gave everyone a little bit of breathing room by providing a transitional relief period, moving the implementation date to January 1st, 2026.

So here we are today on November 12th, 2025, and what do we do now? What's next? So starting in January of 2026, if you have an employee that aged 50 or older who earn, who earned over \$145,000 in FICO wages in 2025 and chose to make a catchup contribution, those catchup contributions must be Roth after tax in 2026.

In addition to this, that there was many deadlines in the 2026 year. So at the beginning of the year, we have to implement it at the, by the end of the year and December 31st, 2026, we have to make sure that our documents and our Amendments for Secure Act are updated and in compliance in Addit.

Addition to that, the IRS provided a good faith compliance period for most plans when they issued their final regulations. That to be enforced on January 1st, 2027.

Evan Melcher: Alright, Lisa, I've gotta ask you. Because I know I sent you some questions that came in from my client, so I'm gonna ask you a few questions that came in from some of our clients over the last couple of months as we got these various announcements.

When this guidance came out from the IRS in August there were a number of seemingly reputable publications that came out with articles, CNBC, Forbes, and others that said, okay, this whole thing is delayed till 27. And plan sponsors have another year to wait and to prepare. So what's true? Did we get that delay till 27?

Or do sponsors actually have to go ahead and implement in 26?

Lisa Caito: It's a two-pronged answer. So the first is you have to be in full compliance with the Roth Catchup contribution requirement by January 1st, 2027. However, the IRS did not extend the transitional relief. And plan sponsors are required to implement the mandatory Roth contributions by January 1st, 2026.

Now, you might ask, what does that mean, right? What that means is really they have delayed the enforcement of the new rule, which is actually gonna provide

time for you as a plan sponsor, payroll providers and record keepers to kinda work the kinks out to learn. What needs to be done with these types of elections that we're gonna talk about today.

And if there's something that needs a system update or some sort of of a tweak, we can get that in place by the beginning of 2027 when they come under enforcement.

Evan Melcher: Okay. One more question. Sure. I know this applies to the catchup, normal catchup, does it also apply to the Super catchup for ages 60 to 63 as well?

Lisa Caito: Yes, the Roth mandate applies to both regular catchup and age 60 to 63 CATCHUP contributions. Okay. All right. We can go to the next slide.

So what's the impact of this rule? Like we, we heard about this rule like almost three years ago now, and there was a lot of confusion. One of the confusions was, what's a FICA wage versus. W2 wages in your plan document. What are we trying to do? So what we've learned over the last three years is what a high earner is.

And a high earner is an employee who makes over \$145,000 in FICA wages from their employer in the previous year. The guidance that we received in September did confirm that these wages can be found in box three of the W2 four. So they have provided clarity on that. We also know now that new employees aren't gonna be subject to this rule because they have no prior year, FICA wages with their current employer.

In addition, that final guidance clarified rules for control group members if you're a part of a control group. You now have the option to aggregate compensation across participating employers if that works best for your plan. If you're unsure whether aggregation makes sense for your situation, it's really a good idea to check with ERISA council before making that final decision.

Evan Melcher: All right. I've got more questions. All right. Okay we talk here about, high earners, self-employed is on here if someone is self-employed and doesn't receive FICA wages. So we deal with a lot of law firms, for example, where a lot of the partners or equity partners might be paid via K one.

So would K one folks that also make over 145,000 be included in this?

Lisa Caito: No. So anyone that doesn't have a FICA wage. So if you're a K one employee, if you're self-employed, if potentially you're a clergy, that debt, that receives 10 99 income, those folks will not be subject to the mandatory Roth catchup.

You have to have W2 wages in box three on your W2 form.

Evan Melcher: All right, so let's just take it a step further. If you've got someone, let's say again we'll talk about the law firm example. Maybe you've got someone who's an associate, they are W2 right now, but effective January 1st, they're becoming an equity partner at the firm, and they're no longer gonna receive FCO wages at that point.

What about them for next year? Will it apply?

Lisa Caito: Okay. I think this is a really good question because it's gonna change. It changes as time goes on, right? So for 2026 plan year, you're gonna look at W2 wages for W2 FCO wages, right? If that participant had 20 20, 20 25 FICA wages over 145,000, they will have to make their catch up contributions as Roth.

Let's fast forward a year. To January 1, 27, that same participant has now had K one income all of 2026. So in 2027, they can go back to making pretext catch up contributions instead of Roth because they no longer have those spike wages.

Evan Melcher: Okay. Makes sense. One more question for you. Okay. Around the new employee idea, let's say you hire someone.

And they make \$200,000 a year, but you hired them midyear. So at your company today, they're only gonna earn a hundred thousand dollars in that six month period in FICA wages. Even though they're a \$200,000 a year employee. Would this apply to them?

Lisa Caito: No. And I think what we have to remember is what does the W2, what's gonna be reported on the W2 if the FOX three on the W2 is actual earnings?

Then they've only made a hundred thousand, so it does not apply to them. If for some reason they made 150,000 in that six months, then it would apply. Okay. Thank you. You're welcome. Next slide.

Okay, so now we've talked about who it impacts. So now we have to figure out how do we identify and communicate. Right plan sponsors. You all should be working very closely with your record keeper to figure out how those high earners will be reported. Most record keepers are asking plan sponsors to provide that information after the last 2025 plan payroll or be in before the first one in 2026.

So timing is really key here to make sure that we get this information to your record keepers. Now I've had clients, Evan, that have asked me more than once, why can't my record keeper use my census data to determine higher earn? And there's really a simple reason for that. Unfortunately, the IRS did not choose plan compensation to be the threat, to be the identifying threshold.

They chose W twos. So your record keepers don't have W2 access to your D twos. So census this data alone won't tell them who crossed that \$145,000 FICO age. So to stay compliant and with the IRS rules, it's necessary to report high earners to record keepers so they can automatically designate catchup contributions as Roth.

For those individuals, they can prevent pretax catch up contributions for the high earners. They can apply a deemed election if your plan uses that deem election.

And you can ensure accurate reporting and avoid compliance violations.

Many employees have relied on pre-tax catchup contributions and without proper communication, this shift may feel like a loss of benefit. Why is the IRS doing this to me? I think I've heard that a couple different times. Once you know who your high earners are, it is crucial that you partner with your record keeper to craft the communications that really speak to those participants impacted.

So there's no surprises. There's no, I am, I can guarantee you of all the attendees on this call, there is probably not one person that wants to have a surprise participant in their office asking why my paycheck is less than what it has been in the past.

Next.

So in this chart, we really outlined the 2025 rule and the 2026 rule for what is changing in catch up contributions. Note that under the 2026 rule, the contribution limits are the 20, 25 limits because we've carried them forward.

They haven't, the 2026 limits haven't been released yet due to the government shutdown.

So we're gonna make, we're gonna use those as our example today. Once those limits are announced, we will be sending out a communication to all of our clients, letting them know what the new Catchup limits will be for 2026. So when we look at this chart, you see a lot of the same information, but the biggest change that we have to keep in mind is if someone earns over the \$145,000 in FICO wages, their catchup contributions have to be Roth.

Roth. And I know I probably sound like. I'm just repeating that over and over again. That old rule of you have to hear something 20 times for it to stick, I apologize. But in this situation, that's how we're identifying these rules. So that is the big difference between 25 and 26 in 25, that could have been an optional election by a plan sponsor, but I think most sponsors have waited until the end of the transitional relief period.

Evan Melcher: I'm curious, could a plan sponsor choose, for example, to make catchups a Roth requirement for everybody, not just the high earners? Is that an option to try to simplify the implementation of this?

Lisa Caito: That is not an option. It is required that all high earners. Make, if they're gonna make catchup contributions, they have to be made as Roth.

Now, if someone is not a high earner, they have the option to make pretax catchup contributions or Roth. They can't be mandated to make the Roth.

And with that, I'm gonna turn it over to Evan and he's gonna talk a little bit about the election methods.

Evan Melcher: Alright, let's see the next slide please. All right, so we've got a couple of different catch up ELEC election methods that employers can choose. As you're going to implement this, I'm gonna walk through each of these and then we're gonna dig into a little bit more about what it means and maybe share a couple of examples.

So the first option is a separate election. This is where the employer is basically going to require at the beginning of the year, that all employees go in. And they make a choice about how they want their regular deferrals to go in, whether that's Roth or pretax, and how they want their catch ups to go in, whether it's Roth or pretax, and if they are a high earner.

In theory, we've heard from a number of record keepers that hopefully they will gray out the box and not allow those high earners to actually elect to do a pre-tax catch up deferral if they are under this separate election method. Again, they're gonna have to be flagged in the system as a high earner.

But separate elections is certainly one approach that you can take the benefit to doing this method. Is that it provides clear control. You're putting it in the hands of the participant, you're putting it on them to go in and make their election. So there's not gonna be any of a you did this for me, a question at the end of the year.

It also creates pretty easy compliance, so that is certainly one method you could take. The second method is what we'll call the spillover method. This is probably more common. I would estimate that we probably see about 65% or so of plans that use the spillover method and maybe about a third of plans are using a separate election method.

I'll also anecdotally say that the ones that we're seeing with separate election, we're seeing it maybe more commonly with professional service firms like law firms. But maybe that's just an observation I'm making in working with some of my clients. But the spillover election, how does that work?

Okay. Someone is making their deferrals, they fill up the regular deferral bucket, they hit the 402G limit. It then spills over if they're eligible for a catchup, and it will keep allowing them to defer more into the plan. This is a more familiar design. So maybe it causes a little bit less confusion.

I'll give you an example of how this works in a moment. But again, separate elections, spillover elections. Now I'm going to introduce a concept that hopefully you've heard by now through the conversations with your record keeper and your payroll provider around this Roth Catchup rule, but there's something called the deemed Roth election.

The deemed Roth election simply automatically converts any excess contributions for these high earners to Roth. So if someone makes one election, and this is, this could be applied actually to the separate or the spillover, but it's most commonly gonna be seen in the spillover. So someone makes their deferral pre-tax, they're filling up that bucket, they're a high earner, they're eligible for catch up, it spills over, and then it automatically converts any excess to a Roth to keep the plan in compliance.

Now on the right it says this simplifies compliance, and that's because there are some additional correction methods that are allowed when you have the deemed Roth election option selected for your plan. So we'll talk more about that. The last choice, the last election method is for no Roth. If you are one of the few plans out there that still does not offer Roth.

Then essentially what's gonna happen is your high earners are no longer gonna be able to make catch up contributions inside of the plan. So that's a big deal. That is the takeaway, Lisa, I think you were referring to. And it's one thing to make them go to Roth. It's another thing altogether to not allow them to do catchups at all.

We would estimate now that we're probably looking at 90% of plans offer a Roth. Probably only 10% or so don't. But that's been coming down really fast over the last couple of years as plans have been preparing for this. So many of the plans that didn't offer Roth have started to. So let's go to the next slide.

So again, I mentioned the deemed Roth election. So if your plan has this deemed Roth election. I mentioned that pre-tax catchup contributions will automatically be treated as Roth when they meet that requirement even if they have elected pre-tax deferrals. So I'm gonna tell you how this works and I'll give you a little example.

So let's say someone comes in and they're deferring 15% of their income or 20% of their income, and they've selected pre-tax and they max out their regular deferrals. Essentially what's gonna happen is when you go to the Catchup contribution, the payroll provider is going to flip that participant's contribution to Roth.

It's not gonna be the participant that goes and makes that choice. It's the payroll provider who's most likely gonna do this. They're gonna start withholding taxes on that money, and then they're gonna track that separately and hopefully they're gonna be reporting that to you and the record keeper. So that's how that's gonna work.

What is an important factor here though, is participants have to be given the option to make a different election. Now, if they're a high earner, that different election is not gonna be, I wanna do pre-tax because they're not allowed to anymore. It's essentially gonna be going to zero and not making that catch up contribution.

But that's essentially what your how the deemed Roth election works. There will be mistakes. But I think Lisa, it's your opportunity to talk to us about how you correct those mistakes, especially when you start with the deemed Roth election on the next slide.

Lisa Caito: Absolutely. Thanks Evan. So we've talked a lot about deemed Roth, right?

And we know there's a deemed Roth election, but what happens during 2026 when you realize that somehow a participant that was a high earner made a pretax catch, pre-tax catch up contribution? If you have a deemed election, those contributions can be switched to Roth in one of two ways. The first way is a W2 correction.

That means you as a plan sponsor can recharacterize those pre-tax contributions and earnings as Roth and report the contribution, but not the earnings on the W2 for that year. However, there is a catch. You must do it before the W2 goes out. Once the W twos are finalized, this method is no longer an option.

So then you say, now what? What happens? Because it's very likely this is will not be caught, but before the end of the year, that comes with a different type of correction, which is called a 10 99 correction, or some of you have may have called heard it, called the in plan conversion correction method.

This one comes into play if the mistake is found after the W twos have been issued or after, or during compliance testing, right? So your record keeper or your third party administrators doing your compliance testing, they realize, wait. You fail testing. It's time to look at the situation. You look at your highly compensated, and they realize that a highly compensated employee has put in more than 23,500.

At that point in pre-tax. So at that point they can convert those pre-tax contributions and earnings to a Roth within the plan and then report them on a total on the, a 10 99 for that year. So that, again, there's lots of options to correct if an oops happens but that is a benefit of the deemed Roth contribution.

If you can change it to the next slide, please.

So what happens to those employers that don't have a deemed Roth election? If your plan doesn't allow a deemed Roth election, you can't automatically treat those catch up contributions as Roth participants that are impacted have to make a specific Roth election to receive catch up contribution. And if they don't make

that election, these contributions might be rejected or simply not processed by your record keeper.

Let's talk through that example, right? You have your plan has failed the actual deferral percentage of the A DP test for 2026, and a high earner that is a highly compensated employee, didn't make an election to make a Roth Catchup contribution. But they have excess contributions based on the fact that the a DP test failed, and they're, they are currently in 2025.

Those contributions, those excess contributions could be recharacterized as catch up. However, in 2026, if you do not have a deemed Roth election in place or the participant. Hasn't elected to make catch as Roth, then those monies will have to be refunded to the participant or we wouldn't use another correction method such as a QAC under the E-P-C-R-S to correct the situation.

So there, there definitely is. While it's not a bad idea to, not to have a participant elect, it's just to make sure that those participants do make the elections that they're required and making sure that we communicate to those participants. What their options are, so there is no surprises. And March 15th comes and you have a highly compensated employee that's getting a refund that they weren't expecting.

All right, next slide please.

Again we talked a little bit earlier Evan did, about plans without Roth contributions. I think the key here is if you don't have Roth deferrals in your plan today. And you want the high earners to be able to make catch up contributions, then you need to request a plan amendment from your record keeper or your document provider as soon as possible.

These changes still can be made in the 2026 year, once the 2026 year happens, but they do need to be made rather quickly. So we do recommend that you do that as quickly as possible. So we've talked all about the correction methods and we've talked a little bit about what your plan has plan happens if you don't have Roth contributions.

But now Evan's gonna talk a little bit about the tax implications to a participant.

Evan Melcher: Okay. Let's go to the next slide then.

All right, so tax implications. So it's important to know, I'm sure everybody on this call knows that when you make the Roth contribution, it means you're

making these contributions after tax. Therefore it will reduce your taxable income today versus making a pre-tax contribution to a plan. So what does that mean for the participant?

It means they need to do some financial planning. So I'm gonna give you a couple of ideas and things that you could consider and some other things that we are seeing with our clients, and even some recent points that folks have made in recent committee meetings. First. You can encourage people to work with their financial planner.

Everybody's financial situation is different, and this includes CAPTRUST at work. So if you offer a plan that has CAPTRUST at work today, those advisors will be ready and able to help participants model out the impact of these Roth contributions for your high earners and see if other adjustments to their financial plan need to be made to help compensate for this change in methodology.

Secondly, as advisors, we always talk to our clients about the power of diversification and we always talk about large caps and small caps and international and us. We talk about all these great diversification concepts, but rarely are we talking about tax diversification. I think many people make the assumption that taxes are gonna be lower in retirement.

Maybe not. Maybe it makes sense to start to hedge your bets a little bit. And to, diversify your tax exposure. It's also important to point out that Roth accounts can be a really great estate planning tool. So as long as these accounts have been open for at least five years and those withdrawals happen after age 59 and a half, you're essentially looking at where your contributions and your earnings at that point, your account balance in those earnings are tax free.

And you no longer have to make required minimum distributions from a Roth 401k account, so you can start to build up these amounts in the Roth. You're already gonna have enough with your pre-tax dollars to pay taxes on at some point. And this could be a good estate planning tool for some of your participants if they start to explore the option.

And lastly I'll mention if you are a plan sponsor and you're getting significant pushback from your high earners, your executives, about this as a kind of takeaway from their tax deferral benefits, we are seeing an increased in conversations around. Non-qualified deferred compensation plans. And so if that's something that's interesting to you and you want to talk a little bit about those options and giving your executives an opportunity to save additional

dollars in tax deferred vehicles please talk to your CAPTRUST advisor and they can share more about that.

Next slide, please.

All right. This is our collaboration slide. So teamwork makes the dream work here, everybody. It's really important that we talk to our payroll providers and our record keepers so that we can make sure as quickly as possible, we're gonna identify who these high earners are. We're gonna make sure that the payroll providers and the record keepers are processing these contributions as accurately as possible so that we can minimize the need for all of those great correction methodologies that that Lisa mentioned earlier.

Next slide, please.

And so to make that easier for all of you, we did provide a plan sponsor checklist. I would literally, as soon as this call is over, if you haven't answered these questions already I would send these out to your payroll provider. You're a record keeper and start to identify the answers to these questions and figure out how these things are gonna be handled.

So let me walk through the payroll provider questions first, and then I'll let Lisa cover the record keeper questions before we wrap up today. So first of all, I would reach out to my payroll provider and I would ask, can you identify our employees who earn more than \$145,000 in FCO wages this year?

It is obviously, it's November 12th today. If you're listening to the recording, maybe it's a week from now. So we're getting to the end of November and they should pretty quickly be able to identify the people that are gonna be impacted by this or who's on the cusp. And as Lisa mentioned, we are gonna need to get that report.

Okay. After the final payroll of 2025, but before the first payroll of 2026, so that those participants can be sent to the record keeper and flagged in the system. You're gonna want to ask them the record, the, sorry. The payroll provider. Can you track? I sure hope so. The pre-tax and the rocks, Roth deferrals separately, obviously that's really important.

The Roth deferrals, they're paying taxes on that today, so we wanna make sure that they can track those separately. This is an important one, especially for those spillover. Will you automatically switch the catchup contributions to Roth

once the IRS 402(g) limit is reached for the participant. You wanna make sure you understand how the payroll provider is gonna handle that.

And then secondly, let's say they've designated that they wanna do pre-tax and the payroll provider switches them automatically to the Roth. What's gonna happen January 1st of the following year? Will you revert them back to their pre-tax selected deferral if that's what they have chosen? So these are questions I would ask your payroll provider right away.

Make sure you know the answers to them, and then work with your record keeper to make sure that will inform how they're gonna implement this thing going forward.

Lisa Caito: All right, so now we look at the record keeper, right? We talked about collaboration with the key. So now we're looking at the record keeper.

And the first thing that we're gonna ask the record keeper is, will you assist in updating plan documents to reflect the Roth Catchup deferrals? So remember when we talked about it earlier, the deadline is December 31st, 2026 to ensure your documents are in compliance with the Secure Act 2.0. So it is important to make sure that we understand who is updating the plan documents.

Is it the record keeper? Is it the separate document provider? How are we gonna get that done and make sure that we're in compliance? How will you coordinate with our payroll provider to ensure accurate data exchange? This is vital because your payroll provider and your record keeper must be in sync.

The payroll provider is gonna flag the high earners, so record keepers can apply the rules. If a payroll provider can't support a deemed election, then you wouldn't want to elect a deemed election with your record keeper. Because in that case, if they're not aligned, you risk errors such as contra, having wrong contribution types, missed catchup contributions, as well as in incorrect tax reporting.

So again, all of this is like a well-oiled machine. We're hoping that all the gears are moving in the right direction. Again, I think we talked a little bit about this, but what catch up election options are available to the plan? Does my separate election make the most sense for your organization?

Is this spillover election? Do I have deemed or do I not have deemed? Those are all questions that you need to not only ask yourself, but ask your record keeper. How does it work with them? How do you report that? Is there an indicator that

they're gonna mark? If Evan was a high earner, are they gonna mark Evan every year as a high earner, or is that just again, gonna stay the same?

And last but not least, will you help me communicate changes to my participants, including Roth elections? We all know that participant communication is gonna be important and crucial in this rollout of this new law. Clear communication is vital for participants to understand how these changes are gonna impact them.

Through contributions and taxes. So the less confusion and the fewer complaints down, or the fewer complaints down the road. So again, we are gonna make sure that we're communicating the timely manner. Next slide.

As we wrap up, the biggest next step is simple. Connect with your payroll provider and record keeper to nail down the detail. Once that's done, you can start reaching out to your higher earners. Those they're age 50 and older, so they understand exactly what this change is going to do and how it impacts them.

Not only how it impacts them, but what do they need to do to implement the provision. And the so it affect it is their acts in their advantage.

So I wanna say thank you today for taking the time out of your busy schedules to join us. It looks like we've had over a thousand attendees today, and we have a number of questions as you can you can get, we really appreciate your engagement and we will be pulling all the questions together and that you all submitted and we'll be sending out a q and a document to everyone in the next week or so.

Along with that, the email with the recording. Again, thank you for your time today and I hope you all have a great rest of the day. Thank you.

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