Effective January 1, 2026, certain “Highly Paid Individuals” (“HPIs”) will be required to make **<u>Roth</u> 401(k) Catch-Up contributions**.

Let’s start with what catch-up contributions are:

- They allow employees ages 50 and older to contribute beyond the standard IRS 402g limits ($23,500 in 2025).
- They are optional, just like Roth 401(k) is optional (however, all 4A’s Benefits clients allow for catch-up).
- The current catch-up for 2025 is $7,500, $11,250 for the super catch-up provision if you elected it.
- **A common misconception**, even though you classify them as “catch-up” contributions in your payroll system, it’s all deferrals until the 402g limit is reached THEN they are “catch-up” contributions. In other words, they aren’t “catch-up” contributions until the employee hits the $23,500 (the 402g limit).
  - For example, a participant is maxing at the regular limits ($23,500 deferrals + $7,500 catch-up = total of $31,000 in 2025), you are sending us $979.17 in deferrals + $312.50 in

"catch-up" contributions for a semi-monthly payroll frequency. However, the full $1,291.67 is considered "deferrals" (and NOT catch-up) until the $23,500 is reached and THEN the remaining $7,500 is classified as catch-up once meeting the $23,500.

- **WARNING!** This matters when a Highly Compensated Employee terminates mid-year! This is why we recommend you don't let your Highly Compensated Employees front-load (defer a bunch of money in the beginning of the year and hit the 402g limit + catch-up by May for example) – it could cause ADP/ACP failures/refunds and the "front-loader" might not be the one to get a refund, it could be the actively employed HCE!

The NEW 2026 Roth Catch-Up Requirement and who is a Highly Paid Individual?

For 2026, Section 603 of SECURE 2.0 requires Highly Paid Individuals (HPIs) who earn **FICA** wages over $145,000 – not total compensation or excluded compensation that we normally collect at year end, but now we have a new limit and employee class to track – **FICA wages and HPIs!** This will be indexed for inflation, just like the compensation limits for Highly Compensated Employees (HCEs), Key Employees, etc.

What do you need to do?

1. If you don’t offer Roth 401(k), you should call me because those HPIs won’t be able to contribute catch-up contributions without a Roth 401(k) feature – good news is there aren’t many of you. We will have to amend your plan to add it.

2. Coordinate with your payroll provider as they track the FICA wages and can assist you in determining who earned >$145,000 in 2025 in FICA wages so you can tell us. Our recordkeeping system is all set up to receive the FICA wages for 2025 and the system will automatically code them as HPIs in 2026. Our year-end data collection that Kossivi sends you will include a column for FICA wages so that we can import that data into our recordkeeping system.

3. Advise your employees – inform employees about changes, especially those ages 50+ and highly paid individuals. We will have materials available to you for distribution this fall.

   - **Note** – regardless of when the HPIs defer the Roth contributions, beginning of the year or end of the year, those Roth contributions <u>will be considered Roth catch-up</u>! So, the HPIs could defer all Roth beginning January 2026 until they reach their catch-up limit and it will be counted as <u>**Roth catch-up**</u> BEFORE meeting the 402g limit! No matter when they are deferred, they will count as Roth catch-up is the point.

Who is exempt from the rule?

- Participants whose FICA wages are below the Roth catch-up wage threshold can make contributions on either an after-tax Roth or a pretax basis.
- Participants who don't receive FICA wages, such as partners and sole proprietors who only have self-employed income, aren't subject to the rule.
- For our Multiple Employer Plans - FICA wages are determined separately for each employer. Wages aren't combined even if the participant works for more than one employer that maintains the same plan. For example, if a participant receives $100,000 in FICA wages from both a parent company and its wholly owned subsidiary ($200,000 in total), the participant won't be subject to the Roth catch-up requirement, even if both companies participate in the same plan. If, instead, the participant had prior year FICA wages from one of those companies that exceeded the $145,000 FICA wage threshold, then the catch-up contributions made from compensation from that company would have to be Roth, but catch-up from compensation from the other company would not.

How will corrections be handled if mistakes are made and HPIs don't elect correctly for Roth catch-up?

While the proposed regulations clarify how to implement the Roth catch-up requirement, the process remains complex, and mistakes are likely to occur. **If Roth catch-up participants make pretax catch-**

up contributions in error, the proposed regulations offer two correction methods:

- **W-2 correction method—**With this approach, participants' pretax catch-up contribution (adjusted for gains or losses) is transferred to their Roth account. The contribution amount alone, excluding earnings adjustments, is then reported as a designated Roth contribution on participants' Form W-2 for the applicable year. Only the contribution itself is taxed, not any earnings. This method can't be used if participants' Form W-2 for that year has already been filed or issued to participants.
- **In-plan Roth rollover method—**This method requires an in-plan Roth rollover of the pretax catch-up contribution (adjusted for gains or losses). The adjusted amount, not just the contribution, is reported as taxable income on Form 1099-R for the year of the rollover. These correction methods can only be used if the plan includes a deemed Roth catch-up election and meets specific deadlines. Under the proposed regulations, the deadlines vary based on which limit has been exceeded to cause the pretax contribution to be catch-up.
  - For example, if the pretax contribution exceeded the annual deferral limit under Internal Revenue Code Section 402(g), the correction deadline would be April 15 following the year it was made (same as a refund of an excess deferral). Also, a plan must apply the same correction method for all participants with contributions in excess of the same applicable limit. ADP refunds are due by March 15 following the year of a failing ADP test.

- **In-Plan Roth rollover feature** – this is an optional plan feature; industry experts are confirming in the final regulations if the plan is required to offer an in-plan Roth rollover feature to use the correction option. Not many plans opted for this feature so hoping amendments aren't necessary to use this correction method. We are waiting on guidance but have time as it would be applicable to 2026 testing which begins in 2027.
- **Recapture tax—**Will the final regulations clarify that the 10% recapture tax, which generally applies if a participant under the age of 59½ withdraws in-plan Roth rollover amounts within five years, won't apply for corrections.

We will be monitoring closely to determine the best practices for all 4A's Benefits clients, and we will communicate any updates as guidance become available.

You have time to announce this to participants; today's communication is for employers.

If you would like to discuss, please contact us via the email address below, and we can set up a call to discuss. Otherwise, look for more information this fall.

The 4A's Retirement Team

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