// PALMER PENSION SERVICES, INC.

4343 Shallowford Road • Suite 320 • Marietta, GA 30062

Phone (678) 215-0909 • Fax (678) 215-0999

PALMER PENSION SERVICES, INC.

LEGISLATIVE UPDATE

November 14, 2025

The SECURE Act 2.0 was passed by Congress at the end of 2022. Some new plan provisions have already taken place while others are scheduled to be effective in 2026 and beyond. This update addresses the Mandatory Roth Catchup Provision.

EFFECTIVE January 1, 2026 - **MANDATORY ROTH CATCHUP CONTRIBUTIONS**

While originally slated to be effective in 2024, the IRS delayed the effective date of this provision until plan years beginning in 2026. The IRS released Final Regulations on September 15, 2025. Plan Sponsors may need to adapt their payroll systems and update internal practices and procedures to comply.

What are Roth 401(k) Deferrals?

Roth 401k contributions are after tax contributions that grow tax free while in the plan. Traditional 401k contributions are pre-tax contributions that grow tax deferred in the plan. Roth account balances are not considered taxable income when withdrawn. Pre Tax account balances are taxable income upon distribution.

What is the New Roth Catchup requirement?

Starting in 2026, those making over $150,000 (as indexed) in FICA wages in the prior calendar year and have attained age 50 will have to have their 401(k) catchup contributions withheld as Roth 401(k) contributions. This will also apply to Super Catchup Contributions for those age 60-63.

Special Note: Owners of Sole Proprietorships and Equity & Non-Equity partners of Partnerships do not have FICA wages and are not subject to these new rules.

How do I determine who is eligible?

Any employee making over $150,000 in FICA wages in 2025 (box 3 of employees' Form W2) will be considered Highly Paid Individuals (HPI) for the 2026 plan year. If they meet the following two requirements during 2026 their 401k Catchup contributions must be withheld from their pay as Roth.

- Attainment of age 50 or older anytime during 2026
- Defer above the maximum 402(g) limit for 2026 ($24,500 as indexed)

It is imperative that you work with your payroll company and/or develop internal procedures to determine who will be considered an HPI for your plan in 2026. Changes in your payroll system may be required to identify these employees.

What questions should I ask my payroll provider?

- Will they be able to provide you with a list of employees who made over $150,000 in FICA Wages before the first payroll in 2026?
- Will they be able to automatically switch affected HPI's from Pre-Tax to Roth deferrals once they hit their 2026 402(g) limit ($24,500 as indexed)?
- Will they then be able to revert those deferrals back to pre-tax automatically at the beginning of the next plan year?

Am I required to provide HPI's with any additional documentation?

Yes. HPI's must be given the opportunity to "opt out" of the Mandatory Roth Catchup provision. If they decide to opt-out they will not be able to defer above the maximum 402(g) limit of $24,500 (as indexed) for 2026. A HPI Deemed Election Form with an Opt-Out feature is attached for you to provide to HPI's. This document informs them that any deferrals over the 402(g) limit of $24,500 (as indexed) in 2026 will be withheld as Roth 401k deferrals through payroll.

What happens if an HPI defers their 401k Catchup contributions as Pre-Tax?

Generally, a corrective Return of Contribution will need to be made to the affected participant after the end of plan year. This would be considered taxable income to the participant in the year of correction.

If you have any questions or wish further information, please give us a call.

Plan Name: ____

Highly Paid Individual (HPI) "OPT-OUT" Election
for Deemed Mandatory Roth Catchup Contributions

Starting in 2026 those making over $150,000 in FICA wages in 2025 (box 3 of 2025 Form W2) will be considered Highly Paid Individuals (HPI). You are receiving this form since it's been determined you are an HPI for the 2026 plan year and have already attained age 50 or will during 2026.

ACTION REQUIRED – In addition to completing this form you are required to complete a Salary Deferral Agreement noting an affirmative 401k deferral election even if it's zero. Please complete and return both forms to your Human Resource Department within a reasonable amount of time prior to your first payroll in 2026. Generally, this would be at least 5 business days prior to your first payroll for 2026.

The SECURE 2.0 Act stated that HPI's who have attained age 50 must have their 401k Catchup contributions withheld as a Roth Contribution beginning with the 2026 plan year. Participants who have attained age 50 are permitted to defer an additional $8,000 ("catchup contribution") over the $24,500 IRC Code Section 402(g) deferral limit (as indexed). This will also apply to any Super Catchup Contributions for those age 60-63

Roth 401k contributions are after-tax contributions that grow tax free while in the plan. Traditional 401k contributions are pre-tax contributions that grow tax deferred in the plan. Roth account balances will not be considered taxable income when withdrawn. Pre-Tax account balances are taxable income upon distribution.

You will be deemed to have elected to defer your 401k Catchup contributions as Roth unless you affirmatively elect below to "Opt-Out" of the Mandatory Roth Catchup contribution below.

Please make your affirmative Roth Catchup election below by checking option (a) **or** (b) below.

☐ (a) "Deemed Election" - I understand that my 401(k) Catchup contributions will be withheld from my pay as Roth.

☐ (b) "Opt-Out" Election - I elect not to have my 401k Catchup contributions withheld from my pay as Roth and will therefore not be eligible to have any 401(k) Catchup contributions withheld from my pay.

____
Printed Name

______________________________ ______________________
Signature Date