Roth Catch-Up Contributions for High Earners

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Recent legislation and regulations require certain participants' catch-up contributions to be taxed as Roth contributions, rather than pre-tax deferrals.

Whose catch-up contributions must be Roth Contributions

General rule. For most plans, beginning January 1, 2026, if a catch-up eligible participant's prior-year FICA wages from the employer sponsoring the plan exceeded an IRS dollar threshold ($150,000 for catch-up contributions in 2026), then any catch-up contributions for the current year must be designated Roth contributions.

Which wages count. For this purpose, wages generally are those reported on Form W-2, Box 3 (Social Security wages), determined on an employer-by-employer basis. Employees who did not have Social Security wages (e.g., partners, individual contractors, or employees of an exempt state or local government) are not subject to the Roth catch-up requirement. There is no automatic aggregation of wages from related or unrelated employers.

Optional aggregation. You may elect to aggregate wages across (i) employers using a common paymaster (3121(s)); (ii) controlled group/ASG members; and (iii) certain predecessor–successor (asset purchase) situations using specified Form W-2 safe harbors. If you adopt an optional aggregation rule, wages from the aggregated entities are treated as wages from the employer sponsoring the plan for Roth catch-up contribution purposes.

Regulatory effective date. Compliance with the Roth catch-up rule is required for tax years beginning after December 31, 2025, and plans must strictly follow the final regulations after December 31, 2026. For 2026, a reasonable, good-faith interpretation of §414(v)(7) applies. Special applicability rules apply for collectively bargained/multiemployer plans and governmental plans.

Plan design choices plans need to make

Whether to add or continue a Roth contribution feature. If a plan lacks a Roth contribution feature, then the plan sponsor may add such a feature or continue without one. However, if the plan does not include a Roth contributi-on feature, participants who are subject to the Roth-catch-up rule are not allowed to make catch-up contributions.

Whether to use a deemed Roth catch-up election (recommended for most). The plan may provide that any participant subject to the Roth catch-up requirement is deemed to have elected Roth treatment for catch-up contributions, but the plan must also give such participants an effective opportunity to make a new election that is different from the deemed election.

How to correct any pre-tax catch-up contributions that should have been Roth. If a participant subject to the Roth catch-up contribution requirement makes pre-tax catch-up contributions, the plan may correct this error using a permitted correction method if the plan provides a deemed Roth catch-up election. The two methods outlined below are available if the plan sponsor had practices/procedures designed to ensure compliance at the time of the deferral.

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- Form W-2 method (before W-2s are issued). Move the catch-up amount (with earnings) from the pre-tax to the Roth account and report the original amount as Roth on the participant's Form W-2 for that year. This method is available only if the Form W-2 has not yet been furnished/ filed.

- In-plan Roth rollover method. Directly roll over the amount (with earnings) from pre-tax to Roth in-plan; report on Form 1099-R in the year of the rollover. A plan may use this method even if the plan does not permit in-plan Roth rollover contributions, since the rollover is made by the plan administrator to correct an operational failure.

A plan may choose to apply the W-2 correction method when it is available (i.e., when the Form W-2 has not yet been furnished/filed) and to apply the in-plan Roth rollover method to all other corrections, or it may choose to apply the in-plan Roth rollover method to all corrections. Regardless of its approach, a plan must treat similarly situated participants the same.

No correction is needed in some amended-W-2 cases. If a participant becomes "over-threshold" only because of a late/amended W-2 discovered after the correction deadline, no correction is necessary.

Amendment deadlines.

Plan documents generally must be amended to reflect the Roth catch-up contributions rules by December 31, 2026 (later for governmental/collectively bargained plans).