Roth Catch-Up Contributions

Quick-Take: The IRS has now provided the Final Regulations on when catch-up contributions must be made to a 401(k) account as a Roth (after-tax) contribution.

Background: The IRS issued 94 pages of final Regulations on September 15, 2025, under the SECURE 2.0 Act, regarding the requirement that catch-up contributions for some eligible plan participants be designated as Roth contributions. These rules apply to qualified plans that permit plan participants to make additional elective deferrals that are catch-up contributions when the participant is over the age of 50 years. Specifically, participants with compensation of more than $145,000 (indexed to inflation) must make their catch-up contribution to their 401(k) account on an after-tax Roth basis [which is intended by Congress as a revenue 'raiser' to finance some of the other perceived tax breaks under the SECURE 2.0 Act.]

Effective Date: This requirement is effective starting in **2027. [**IRC 414(v)(7)(A).] **IRS Notice 2023-62** delayed the Roth catch-up contribution rule which was initially supposed to go into effect by now, but due to its administrative complexity, its effective date got pushed back to 2027 to permit a 'transition period' to enable plan sponsors and administrators to learn the new mandatory Roth catch-up rule and how to go about implementing the rule.

Changes and Clarifications : Some of the changes or clarifications under these Final Regulations include the following:

- They permit an employer that is part of a controlled group or an affiliated service group to aggregate compensation across multiple entities for purposes of determining whether a participant is required to make catch-up contributions on a Roth basis.
- They clarify that a qualified retirement plan that offers the age 60-63 catch-up 'enhancement' may utilize other permitted practices, such as including limiting total deferrals to 75% of compensation, without violating the Tax Code (and ERISA's) universal availability requirement.
- They permit a plan administrator to utilize the Rollover Correction Method until the last day of the plan year following the close of the plan year for which the excess contribution was made to an account.

- They clarify the treatment of in-plan Roth rollover corrections for purposes of the plan's qualification requirements.
- They clarify the conditions [proposed in Regulation 1.401(k)-1(f)(5)(iv)] by providing that the participant's deemed election must cease to apply to an employee within a reasonable period of time following the date on which :(i) the participant ceases to be subject to the IRC 414(v)(7) requirement to make catch-up contributions as designated Roth contributions; or (ii) an amended Form W-2 is filed or furnished to the participant indicating that the participant is not subject to IRC 414(v)(7). Accordingly, the catch-up contributions that were designated as Roth contributions pursuant to the deemed election rule before the end of the reasonable period of time do not need to be recharacterized as pre-tax catch-up contributions.

Conclusion: Fortunately, there are several examples in these Final Regulations that help to explain when and how a plan participant must make Roth catch-up contributions to his/her 401(k) account and when and how changes in compensation are handled, either falling under this Roth contribution rule, or when a participant is no longer covered under the mandatory Roth contribution rule due to a decrease in compensation.

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