SECURE 2.0:

The 2026 Catch-Up As Roth Requirement for Highly Paid Employees

navia

The SECURE 2.0 Act impacts catch-up contributions for 401(k), 403(b), and 457(b) plans. Participants who earned more than $150,000 in FICA wages for 2025 must make all catch-up contributions in 2026 as Roth. The IRS refers to these participants as "Highly Paid Individuals," or HPIs. The $150,000 threshold is subject to change annually.

Key Points for Plan Sponsors

New Hires may get a pass the first year. If you pay an employee less than the threshold in the year, they are not an HPI for the following year. For example, you hire a director mid-year and pay them $85,000 in 2025. They are not an HPI for 2026.

Payroll has a new threshold to manage. The HPI limit pegged to FICA wages is a brand-new requirement for payroll.

Payroll just got more complicated. Payroll must track enhanced catch-up for those age 60 to 63 if you adopted that provision and now must also track the HPI threshold. The HPI rules apply to enhanced catch-up, too.

The money should come into the Plan as Roth. Ideally, your payroll provider processes the impacted catch-up contributions as Roth dollars *at the time the deductions occur* and passes them in the Roth contributions bucket on the payroll files. This is the cleanest way to do it.

As your recordkeeper, we will automatically recharacterize contributions. If your payroll file includes pre-tax catch-up contributions for an HPI, we will automatically put them in the Roth source. We will then provide the employee with a 1099-R for the recharacterized amount after the end of the year, because this is a taxable conversion. You do not need to adjust W-2s on your end.

We will maximize the pre-tax contributions. We will only recharacterize contributions that exceed the regular contribution maximum. We ensure that employees receive the maximum pre-tax advantage under the regulations. Examples:

> HPI contributes pre-tax all year, is $300 below the maximum, and we receive a $500 pre-tax contribution. We would only recharacterize $200 of that contribution as Roth.
>
> HPI contributes $2,000 early in the year as Roth contributions, switches to pre-tax contributions, and hits the limit using pre-tax contributions. We would consider the $2,000 in Roth contributed early in the year to be catch-up contributions, thereby allowing the participant to contribute an additional $2,000 in pre-tax contributions.

navia

No Roth, No Catch-up for HPIs

Your plan doesn't have to include a Roth, but 93% of all plans nationwide do. **If your plan does not have Roth, we recommend that you add it immediately. Here's why:**

- **Impacted participants may not contribute any catch-up.** Other participants may continue to make their usual pre-tax catch-up contributions.
- **Removing catch-up = plan cut-back:** Removing the plan's catch-up provision entirely would be difficult unless you could justify doing so because it is seldom used. Discuss this with your ERISA attorney if you want to take this approach.
- **No Catch-Up = Potential negative impact on nondiscrimination testing results:** The contribution rates for your highly compensated employees (HCEs) are aggregated for the Average Deferral Percent test. If the plan fails the testing, we can reclassify some contributions as catch-up and exclude them from the testing. If HPIs are not eligible to make any catch-up contributions, you remove that testing option and can make your plan failures worse.

Things to Know if Your Plan Already Has Roth

The new provisions introduce a couple of additional administrative challenges

Roth catch-up must be available to all. If any participants are allowed to make Roth catch-up contributions, then all participants must be offered the option. This may entail setting up a separate catch-up election on the website. We recommend a wait-and-see approach on this.

HPIs can still contribute their pre-catch-up contributions pre-tax. Only the catch-up contributions for highly-paid individuals are subject to this new Roth requirement.

What You Should Do Next

- **Review the SECURE 2.0 provisions and your Plan document**. Did you adopt the enhanced catch-up, or will you?
- **We recommend you add Roth now if you don't have it.** There is lead time needed to do this both legally and operationally. Ensure your plan's recordkeeper, plan advisor, payroll provider, and payroll department are all aligned for this to work.
- **Clarify your Payroll Provider's requirements.** Will they pass the impacted catch-up contributions in the pre-tax or Roth contribution fields?
- **Educate Employees.** Please share **this link** with your highly paid employees to brief them on the requirements.

Summary of Responsibilities

Task	Payroll Provider	Plan Sponsor	Navia Retirement
Decision-making	Explain payroll capabilities and standards	Define plan decisions and coordinate with service providers: - Enhanced catch-up - Plan has Roth	Align plan documents with operational needs and plan design
HPI Identification	Identify HPIs in early 2026 based on 2025 FICA wages	HPI identification file to Navia	Maintain HPI indicators
Contribution Deductions and Monitoring	Monitor pre-tax deferrals and flip to Roth under deemed election	Transmit payroll data to Navia, as usual	Ideally, post contributions as received. We will also monitor and automatically deem catch-up contributions for HPIs as Roth.
Contribution Deductions	Maintain original elections and revert annually or when HPI status changes	Facilitate rate changes	Facilitate contribution rate changes via the participant website; send instructions via feedback file
Corrections	Notify sponsor of mandate failures; assist with W-2 corrections and record alignment	Coordinate W-2 corrections across providers	Conduct year-end testing. Convert any remaining pre-tax to Roth that needs to be converted, and apply 1099-R / W-2 corrections

Questions?

If you have any questions, please contact your Client Service Manager.