



# REQUIRED ROTH CATCH-UP CONTRIBUTIONS

SECURE 2.0 added a new requirement for retirement plans, effective January 1, 2026. Participants who are highly paid individuals (HPIs) will be required to make catch-up contributions as Roth, rather than pre-tax, deferrals. Below is the key info you need to know.

## **Am I considered a highly paid individual?**

A highly paid individual (HPI) is someone whose FICA compensation exceeds \$150,000 in the prior year. Owners in a sole proprietorship and partners in a partnership, among others, are not subject to FICA taxes, and therefore are not HPIs.

## **Can I make a catch-up contribution?**

Catch-up contributions are permitted by participants who turn 50 or older in the current year. Those attaining ages 60, 61, 62, or 63, can make an even larger catch-up contribution, but only in the years they attain these specified ages. It's important to note that, starting in 2026, if a retirement plan does not allow for Roth deferrals, highly paid individuals (HPIs) will not be able to make catch-up contributions.

## **How can I elect Roth treatment of my catch-up contribution?**

You can make an election for deferrals to be pre-tax or Roth. If you're an HPI and eligible for catch-up contributions, you will need to elect Roth for any amount above the annual deferral limit, beginning in 2026.

## **What is the difference between pre-tax and Roth?**

The difference between Roth 401(k) and traditional 401(k) (pre-tax) contributions comes down to when you pay the tax, now or later.

With a **traditional 401(k)**, contributions are made with pre-tax dollars, so you get a tax break upfront, helping to lower your current income tax. The monies—both contributions and earnings—grow tax-deferred until you withdraw them. At the time of disbursement, withdrawals are considered ordinary income, and you pay federal income taxes at your current tax rate. Those living in states imposing income taxes will also pay state income taxes. With certain exceptions, you will pay a federal 10 percent penalty if you're under 59 1/2.

With **Roth**, it's basically the reverse. You make contributions with after-tax dollars, meaning there's no upfront tax deduction. However, withdrawals of both contributions and earnings are tax-free at age 59 1/2, as long as you have held the account for five years.