Vanguard

Roth catch-up provision

SECURE 2.0 Act | Implementation required January 1, 2026

Overview

The SECURE 2.0 Act of 2022 (SECURE 2.0) is changing the way certain participants must make catch-up contributions. Effective January 1, 2026, participants age 50 or older who earned more than $145,000 in FICA wages in the previous calendar year may only make catch-up contributions as Roth contributions. This means that plans will have to offer a Roth contribution option to allow catch-up contributions. **Originally set to take effect in 2024, the IRS announced a two-year administrative transition period for this provision during which catch-up contributions may continue to be made on a pre-tax basis for participants who earned over $145,000 in FICA wages in the preceding calendar year.**

Key takeaways

- The required Roth catch-up provision is effective for tax years beginning on or after January 1, 2026.
- This required provision applies to all 401(k), 403(b), and governmental 457(b) plans. SIMPLE IRA and SEP plans are not impacted by this requirement.
- Participants whose prior-year FICA wages exceed $145,000 from the employer sponsoring the plan must make catch-up contributions on a Roth basis beginning on January 1, 2026.
- Plans that currently offer catch-up contributions but do not allow Roth contributions are strongly encouraged to add a Roth contribution option so that participants already making catch-up contributions can keep making them—and newly eligible participants can start.

What's changing?

For plan sponsors

Plans that do not currently offer Roth contributions will need to determine if they will add Roth or eliminate catch-up contributions. The addition of a Roth contribution option to a plan now can provide tax diversification for participants, with the added benefit that plans will be ready for Roth catch-up contributions beginning in 2026.

For payroll providers

As they do today, payroll providers have the primary responsibility of monitoring participant contribution limits. Payroll providers should work with plan sponsors to ensure that they will be able to provide accurate data and tracking services for the 402(g) and catch-up contribution limits.

For participants

Vanguard is making updates to our existing participant experience to accommodate employees who have been identified as "Roth-required participants," including an option to automatically convert pre-tax deferrals to Roth deferrals once a participant's FICA contribution limit is reached.

Vanguard's solution

Vanguard's solution was developed to comply with the Roth catch-up provision in a manner that minimizes plan sponsor impact by enhancing the current contribution processing structure and limiting the need for payroll file and plan design changes for most clients.[1]

1 Please note, some features of this solution will require plans to adopt an enhanced reinstatement service in the future. Vanguard will provide more details to implement this process in the near future.

- **Eligibility:** Participants whose prior-year FICA wages exceed $145,000 from the employer sponsoring the plan (Roth-required participants) will be identified through a new FICA indicator. Tracking FICA wages represents a new industry requirement.
- **Enrollment:** Enrollments will be processed in the same manner as they are today. Participants will be able to make deferral elections as permitted under their plan's rules.
- **Contribution processing:** Vanguard will flag any pre-tax contributions received from Roth-required participants in the event that the payroll provider fails to shut off their pre-tax source once they have met the IRC Section 402(g) limit, creating a rejection for the excess contribution. The client will then instruct Vanguard on how to reallocate or adjust the contribution amounts in excess of the 402(g) limit.
- **Participant experience:** Vanguard's participant experience website will allow for Roth-required participants to modify deferral elections to ensure catch-up limits can be achieved. Participants will also have the ability to establish deferral elections, effective January 1 of the following year, if desired.
- **Distribution:** Distributions will be processed in the same manner as they are today. Participants will continue to have the ability to specify when distribution amounts are taken from Roth or non-Roth sources, including Roth catch-up.
- **Tax and compliance:** If needed, Vanguard will enhance the existing year-end recharacterization of pre-tax dollars to Roth dollars to mitigate risk and comply with the new requirements of SECURE 2.0.

Next steps timeline

	Plan sponsor action	Vanguard action	Payroll provider action
2023 + 2024	Plan sponsors currently offering catch-up contributions without a Roth contribution option should provide Vanguard with instructions on how they would like to comply with the Roth catch-up provision as soon as possible.	Vanguard strongly encourages the addition of a Roth contribution option to provide tax diversification for participants, with the added benefit that plans will be ready for this provision beginning in 2026.	Payroll providers now have more time to work with plan sponsors and recordkeepers to implement needed administrative and technology changes, such as new functionality and data tracking efforts.
2024 + 2025	Plan sponsors who submit a new request to either add a Roth contribution option or eliminate catch-up contributions will see those plan design changes implemented throughout 2024 and 2025.	Vanguard will partner with plan sponsors that do not currently offer a Roth contribution option to add that feature to satisfy the new January 1, 2026, effective date for this required provision.	Payroll providers should continue to work with both plan sponsors and recordkeepers to implement payroll and administrative changes needed for compliance with this provision.
2025 + 2026	Plan sponsors will receive more detailed information on what steps they need to take to implement Vanguard's solution for this provision as the new effective date of January 1, 2026, approaches.	Vanguard will continue to work with plan sponsors and payroll providers after January 1, 2026, to further streamline integration and sharing of participant FICA wage data.	Payroll providers should be prepared to provide all employees with prior-year FICA wages and indicate whether the employee met the $145,000 FICA wage limit in the preceding calendar year.

Frequently asked questions

Roth catch-up provision details

1. **What type of compensation is considered in determining the $145,000 wage limit for this required Roth catch-up provision?**
   The $145,000 limit is based on prior-year FICA wages (as described in the Internal Revenue Code Section 3121(a)) from the employer sponsoring the plan. The FICA wage limit is indexed for inflation and may change year over year.

2. **How does this required provision affect newly hired employees?**
   The Roth catch-up provision is based on an employee's prior-year FICA wages paid by the employer sponsoring the plan. New employees would not have any prior-year FICA wages, so regardless of salary, they would not be subject to the $145,000 FICA wage limit in their first year of employment and would be eligible to make pre-tax or Roth catch-up contributions.

3. **Do prior-year FICA wages earned at a previous employer count toward the $145,000 FICA wage limit?**
   No. The $145,000 FICA wage limit applies to compensation earned at the employee's current employer. If the employee is rehired in the same year, wages earned during the employee's previous tenure would count toward the $145,000 FICA wage limit.

4. **How is the $145,000 FICA wage limit for catch-up contributions managed if an employee has more than one W-2?**
   Catch-up eligibility is not determined by a participant's W-2. Effective January 1, 2026, any individual age 50 or older who made more than $145,000 in FICA wages in the previous tax year with the same employer will be required to make catch-up contributions to their current qualified retirement plan as Roth contributions.

5. **How does the $145,000 FICA wage limit apply if an employer has multiple companies under an umbrella company?**
   The FICA wage limit applies only to wages paid by the employer sponsoring the plan. If an employer is a member of a controlled group but is not participating in the plan, compensation paid by that employer is not included.

6. **Can plans make employees who made more than $145,000 in prior-year FICA wages ineligible for catch-up contributions?**
   No. Plan sponsors must offer catch-up contributions to all participants in the plan.

7. **Can an employer require all catch-up contributions, regardless of FICA wages, to be Roth?**
   The SECURE 2.0 Act does not address this question, and additional guidance is needed from the IRS to confirm if it is permissible to limit all participants, regardless of FICA wages, to Roth catch-up.

Vanguard's solution and plan structure

8. **Will Vanguard's solution differ based on single-source or separate-source plans?**
   No. Vanguard's solution will use the FICA wage indicator to identify Roth-required participants and turn off the appropriate pre-tax source once these participants reach the 402(g) limit. This process is the same for both single-source and separate-source plans.

9. **What is the impact to clients that intend to consolidate a catch-up source by January 1, 2026?**
   Vanguard's solution to the Roth catch-up provision will not impact a plan sponsor's transition from separate-source to a single-source. Separate-source plans can, if desired, move into a single-source without the consolidation affecting their ability to administer the Roth catch-up provision of SECURE 2.0, subject to implementation time frames.

10. **Can a plan sponsor request to add a Roth in-plan conversion feature at the same time as adding a Roth catch-up contribution option?**
    At this time, requests to add the Roth in-plan conversion feature should be separate from adding a Roth catch-up contribution feature. Plan sponsors interested in adding a Roth in-plan conversion feature (pending a fit analysis) should contact their Vanguard representative for more information.

11. **Is the Roth catch-up provision required to be included in the annual plan legal notice before year-end?**
    Certain participant disclosures may need to be updated to describe the changes to Roth catch-up contributions. Vanguard will make these changes as necessary for those clients using our notice services.

12. **How will the plan amendment process work for the Roth catch-up provision?**
    For clients using Vanguard's preapproved document, the document provider will be providing the amendment.

    More information on the preapproved document process will be provided at a later date. Plan sponsors using custom plan documents are responsible for drafting their own amendments. Plan amendments for all SECURE 1.0 and SECURE 2.0 provisions are not due until December 31, 2026.

Participant experience

13. **If a participant affirmatively selects the Roth catch-up contribution option for catch-up contributions, will their contribution election automatically revert to their pre-tax election for the following year?**
    After a Roth-required participant meets the 402(g) limit and affirmatively selects a Roth source for catch-up contributions, they will be given the opportunity to set their deferral options for the following year for all sources, including both pre-tax and Roth. Please note, this option is only available for participants whose plans adopt an enhanced reinstatement service in the future. Vanguard will provide more details to implement this process in the near future.

14. **For plans that utilize a separate-source administrative arrangement, what will the participant experience look like with the pre-tax catch-up source?**
The pre-tax catch-up source will not be suppressed for the FICA population. However, any contributions applied to this source as a result of deferral elections will be factored into the overall year-to-date pre-tax 402(g) amount (both noncatch-up and catch-up combined) to ensure compliance with the 402(g) limit. It is the participant's responsibility to understand how separate catch-up source deferral elections impact their contributions.

15. **What communications can participants expect regarding the new experience?**
Vanguard will update the participant experience to include education for Roth-required participants, including increased notifications, targeted communications, and enhancements to advice.

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