Rothification

The Roth Catch-up Requirement for High Earners

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Being from Delaware, I remember Senator Roth, the lone U.S. Representative from Delaware, and his two giant St. Bernards walking down Market Street, greeting all his constituents. Who knew that this affable man would leave behind a legacy that will benefit millions of people for generations to come? At the age of 76, he created the Roth IRA, an individual retirement plan that can be set up with post-tax dollars, offering tax-free withdrawals. Senator Roth was the last Republican to serve as a U.S. Senator from Delaware, and he left a big legacy: Roth IRAs were created as part of the Taxpayer Relief Act of 1997, which was signed into law by then-President Bill Clinton. In the year 2022, contributions to Roth IRAs outpaced contributions to traditional IRAs. When Senator Roth died in 2003, more than $14 trillion in Roth IRAs were owned by 31.9 million households, representing 24.3% of the U.S. population. But Roth alternatives did not stop there…

If Senator Roth Only Knew that Rothification Would Become a Word

Three years after he died at the age of 82, Roth 401(k), 403(b), and 457(b) contributions became available, in 2006. Starting in 2010, all IRA owners and participants in 401(k), 403(b), and governmental 457(b) plans became eligible to convert their traditional IRA and pre-tax retirement plan funds to Roth dollars.

Until now, Roth contributions have been voluntary, but starting in 2026, 401(k), 403(b), and 457(b) plan participants who earned $145,000 or more in the previous year (High Earners), must make all catch-up contributions on a Roth basis in the current year, a requirement established by the Setting Every Community Up for Retirement Enhancement Act (SECURE 2.0). These compulsory Roth contributions could be just the beginning of a new Rothification era. (Insert Taylor Swift here)

Rothification refers to a policy shift requiring the use of Roth after-tax contributions or accounts. As a fiscal conservative, Senator Roth's goal was to create a vehicle that provided access to retirement savings without a short-term impact on the federal budget. Rothification would force that outcome, although I'm not sure that Senator Roth envisioned a mandate, rather than a choice.

No Short-Term Impact on the Federal Budget

Contributing with post-tax dollars means that unlike the regular pre-tax contribution, a Roth contribution does not provide an immediate tax benefit to the contributing individual. There is no tax deduction for contributions; however, many years later, qualifying withdrawals are tax-free. Tax-free withdrawals means that the individual never pays tax on the appreciation of the investments held in the Roth account. Additionally, Roth accounts are not subject to the Required Minimum Distribution (RMD) Rules, further enhancing the value of the tax savings on the appreciation of the investments. Roth contributors are playing the long game, believing that the value of their investments will increase and hoping that the tax rate that would have applied to a taxable distribution would have been higher than the tax rate they paid on the dollars originally contributed. Some economists estimate that the federal government would collect an extra $1 trillion dollars in taxes over the next ten years through a Rothification mandate.

First Steps Toward Rothification: the Roth Catch-up Requirement for High Earners

The Setting Every Community Up for Retirement Enhancement Act (SECURE) 2.0 may very well have established the first Rothification requirement, by requiring catch-up eligible High Earners to make catch-up contributions to their 401(k), 403(b), and 457(b) plans on a Roth basis, effective January 1, 2026. High Earners are members of the High Earning Group, new defined terms used when referring to the new Roth catch-up mandate applying to individuals who met a $145,000 FICA Wage Threshold in the prior year.

$145,000 Wage Threshold

The $145,000 wage threshold is determined based on a participant's FICA wages for the preceding calendar year, subject to cost-of-living increases and does not need to be prorated for the first year of employment. According to this definition, nobody can be considered a High Earner during their first year of employment

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since the prior year wages would be zero for that individual's new employer. Each employer makes the determination using its own payroll's FICA wages, such that affiliated and unrelated employers are not relevant. It's important to understand that the look-back process is similar to the one for identifying Highly Compensated Employees used in the discrimination testing for qualified plans, but a High Earner is NOT the same as the Highly Compensated Employee. Additionally, a Roth feature must be universally available – An employer is not required to offer a Roth feature, but the Roth feature cannot be available only to the High Earning Group. If a plan permits the High Earning Group to make catch-up contributions as designated Roth contributions for a plan year, such plan must allow all other catch-up eligible participants to also make designated Roth contributions. Catch-up contributions on a Roth basis is an option that must be available to all participants.

Pre-tax catch-up eligibility is only available to participants who are not High Earners. If a plan does not include a Roth feature, the High Earning Group will not be permitted to make any catch-up contributions under that plan. For the High Earning Group in a plan without a Roth feature, the maximum amount permitted under applicable law is $0. Other catch-up-eligible participants can still contribute the maximum catch-up of $7,500, as indexed, or the super catch-up of $11,250 (as indexed) for individuals between the ages of 60 and 63. This potential disparity in the availability of catch-up contributions may seem discriminatory, but it's hard to imagine why an employer would not simply add a Roth feature to make the opportunity truly universal.

Speaking of discrimination, catch-up contributions are not subject to discrimination testing or to any other applicable limit, such as the 402(g)-deferral limit, the Section 415 annual additions limit, or the plan-imposed limit. The mechanics of how much of a person's contribution is a catch-up could be more complicated because a contribution cannot be considered a catch-up until it exceeds a legislative or plan limit.

All Roth Contributions Count

All Roth contributions made by a member of the High Earning Group, including elective contributions that are not catch-up contributions, count toward the Roth catch-up contribution requirement. Using the 2025 contribution limits of:

402(g) Deferral	**$23,500**
Age 50 Catch-Up	**$7,500**
Age 60-63 Super Catch-Up	**$3,750**
Total	**$34,750**

If the participant elected to contribute the maximum, with half the contributions pre-tax and half Roth, then the participant will have already made $11,750 ($23,500/2) in Roth contributions by the time the participant's contributions exceed the 402(g) legislative limit. It means that the requirement for the catch-up contributions to be made on a Roth basis would have already been met. Roth contributions of $11,750 would already exceed the $11,250 super catch-up limit for participants between the ages of 60 and 63. No adjustments need to be made to the source code of this participant's subsequent contributions in order to meet the Roth catch-up requirements. All Roth contributions count. Unlike the classification of a contribution as a catch-up, the timing of Roth contributions amounting to the catch-up dollars does not matter. Since High Earners can be identified at the beginning of the year, employers will be able to assess whether their elections will comply with the rules and advise the participant to adjust accordingly.

Deemed Elections or Automatic Discontinuance

If the High Earner elects only pre-tax deferrals, then Roth catch-up contribution elections will be assumed, even without a participant's authorization. However, since the contribution amounts are taxable and will have financial repercussions, High Earners in this situation must be given an opportunity to make a new election, so that they can stop making elective contributions. If the participant doesn't elect to stop contributing, deemed Roth catch-up contributions are excludable from the participant's gross income on the payroll and when the Roth contribution withholdings are remitted, they are allocated to the Roth source-code in the participant's account.

Alternatively, employers of High Earners who elected only pre-tax deferrals can automatically discontinue their contributions when they reach the 402(g)-deferral limit unless they make an affirmative election to make Roth catch-up contributions. Employers can implement either a deemed election or automatic discontinuance approach for Roth catch-up contributions, and consistency in application is crucial.

Reclassifications to Roth Catch-up Due to Exceeded Limit

If the ADP test requires the reclassification of deferrals as a catch-up, the source of the reclassified contributions must be taken into account. Since a reclassification to catch-up for a High Earner involves a change in source-code from pre-tax to Roth, the taxability of the reclassified amount can be reflected on a corrected Form 1099-R like an in-plan Roth conversion, or on a corrected Form W-2.

If a contribution exceeds an employer-provided annual limit, or the Actual Deferral Percentage (ADP) test limit, then the deadline to reclassify the pre-tax contribution as a Roth catch-up, or to issue a corrective distribution, as applicable, is 2 ½ months after the close of the plan year in which the contribution was made (or six months for plans that include an eligible automatic contribution arrangement).

If a contribution exceeds the annual 402(g) elective deferral limit, then the deadline to reclassify the pre-tax contribution as a Roth catch-up, or to process a corrective distribution, as applicable, is April 15 of the calendar year following the year in which the contribution was made.

Rothification Complications: Short-Term Revenue, Long-Term Loss

Despite the administrative burden added by the Roth-catchup requirement, plans cannot require that all catch-up contributions be made on a Roth basis to simplify the administration of this requirement.

The High Earning Group Roth Catch-up requirement was passed to pay for other tax benefits of the SECURE 2.0 Act. The complicated Roth Catch-up provisions make it clear that Congress will prioritize short-term revenue creation over the simplification of the tax code. Rothification raises revenue in the ten-year budget window used by the Congressional Budget Office to evaluate bills. However, the mandated Roth catch-up contributions only generate more revenue than traditional contributions in the short-term. Rothification is forcing participants to play a long game that is likely to be to their advantage, while costing the government in the long run. Unknowingly, the Feds are Rothifying the High Earners for their own good.

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