

The 2026 Catch-Up Rule Change Is “A Hot Mess” For 401(k) Plan Sponsors

By Ary Rosenbaum, Esq.

If there were ever a retirement plan rule that screamed “What fresh hell is this?”, it’s the upcoming 2026 catch-up contribution change for highly compensated employees. SECURE 2.0’s new rule, forcing high earners to make their catch-up contributions as Roth, not pre-tax — is the kind of bureaucratic twist that would make even Lucille Bluth roll her eyes and pour another martini. Yes, my friends, it’s going to be a hot mess. And like everything else in the 401(k) world, plan sponsors are going to be the ones cleaning it up.

The Law — and the Gimmick Behind It

Let’s start with the basics. Section 603 of the SECURE 2.0 Act amended Internal Revenue Code §414(v), the section that allows employees age 50 or older to make additional “catch-up” contributions. Starting January 1, 2026, anyone earning more than \$145,000 in W-2 wages from their employer in the prior year will be required to make all catch-up contributions on a Roth (after-tax) basis. Pre-tax catch-up contributions?

Gone. Congress delayed the effective date from 2024 to 2026 after realizing what a logistical nightmare it would be, but let’s be honest, this isn’t about simplification or retirement readiness. This is a revenue generator. By forcing Roth treatment, the government gets its tax money now instead of when retirees withdraw it decades later. It’s the classic budget trick: accelerate revenue inside the 10-year scoring window so they can claim the bill “doesn’t cost anything.” The IRS gets paid up front, and em-

ployers get to rebuild their payroll systems from scratch. If that doesn’t sound like sound fiscal policy, well, it’s Washington.

Who Gets Caught in This Net

The rule only applies if you earn more than \$145,000 (adjusted annually for inflation) in wages from the same employer that sponsors your retirement plan. This isn’t total income — it’s W-2 compensa-

tion. But once you cross that line, even by a dollar, you lose the pre-tax option completely.

Why This Matters to Plan Sponsors

If you sponsor a retirement plan, the next year will feel like trying to teach Lucille Bluth how to use Venmo. Every system you rely on — payroll, recordkeeping, plan documents — needs an update.

Here’s what needs to happen before the rule goes live:

1. Add Roth Capability

If your plan doesn’t already allow Roth contributions, you must add them. Otherwise, high earners won’t be able to make catch-up contributions at all. The law doesn’t create exceptions — it just says “Roth or nothing.”

2. Amend Plan Documents

You’ll need to amend your plan by December 31, 2026, to comply with the new rule. If you use a prototype or volume submitter plan, make sure your document provider includes the Roth language.

3. Coordinate with Payroll and Recordkeepers

This one’s the big headache. Payroll needs to track prior-year wages and automatically designate catch-ups as Roth for those over the limit. Recordkeepers must properly account for Roth sources and report them correctly. And the two systems need to talk to each other — something that’s never as seamless as anyone hopes.

4. Update Communication and Education Materials



tion. So, if you make \$146,000 at Company A and \$60,000 at Company B, the rule only applies to your catch-ups at Company A’s plan. Multi-employer participants? Buckle up, this gets even more confusing. This rule affects 401(k), 403(b), and governmental 457(b) plans. Non-governmental 457(b) plans aren’t covered, because apparently someone in Congress realized they’d already made enough chaos for one bill. If your wages are below \$145,000, you can keep making pre-tax or Roth



Participants are going to notice when their take-home pay drops in 2026. You'll need to explain that their catch-up contributions are now after-tax, not that you "changed the plan to take more of their money."

5. Prepare for the "Good Faith" Period

The final regulations allow a "good faith" compliance period through 2026, with full enforcement starting in 2027. That's legal-speak for "We know this will be messy, so just try your best."

What Participants Need to Know

If you're a high earner, this rule hits you directly.

You Lose the Immediate Deduction

Starting in 2026, if you earned more than \$145,000 the prior year, your catch-up contributions (the extra \$7,500 if you're 50 or older) will be taxed now. No more reducing taxable income for that portion.

You Still Get Tax-Free Growth

On the upside, your Roth catch-ups will grow tax-free, and qualified withdrawals in retirement won't be taxed. That's great if you expect higher tax rates later or want tax diversification. But it doesn't change the fact that you'll see a bigger tax bill today.

The "Last Dance" for Pre-Tax Catch-Ups

If you want one last hurrah for pre-

tax catch-ups, 2025 is your year. Make the most of it, because starting in 2026, Uncle Sam gets his cut up front.

Watch the Threshold

That \$145,000 limit is indexed for inflation, but don't expect it to jump dramatically. Plan accordingly, once you cross it, you're in Roth land for good.

Don't Panic — Plan

For some, this may not be terrible. Roth accounts have estate planning benefits, and tax diversification is valuable. But it's a shock to anyone counting on the deduction.

The Real Motivation: Revenue, Not Reform

Let's call this what it is, a cash grab. Congress used the Roth catch-up rule as a pay-for in SECURE 2.0. By accelerating tax collections, they could offset the cost of other provisions, like raising required minimum distribution ages and expanding auto-enrollment. It's clever accounting, but lousy policy. Forcing Roth treatment eliminates choice for participants and dumps complex administrative requirements on plan sponsors. In plain English: Washington got its money; you got the paperwork.

Why Lucille Bluth Would Be Right That It Is A Hot Mess

Lucille Bluth, the matriarch of Arrested Development, had a gift for calling things what they were, petty, self-serving, and beneath her. She'd look at this rule and say, "I don't understand the question, and I won't respond to it." That's exactly how plan sponsors will feel when payroll asks whether they're ready for the new Roth logic. Or when participants ask why their paychecks are smaller. Like Lucille watching her children destroy what's left of the Bluth fortune, plan sponsors are about to watch compliance chaos unfold, not because they did anything wrong, but because someone in Congress thought "Roth-only catch-ups" sounded clever. This is the government equivalent of Lucille's cruise ship debacle: elegant on paper, disastrous in execution.

Final Thoughts

The 2026 Roth catch-up rule is a classic example of how good intentions and bad execution collide in the retirement plan world. Congress wanted revenue, the IRS gets headaches, and plan sponsors get the joy of explaining it all to confused employees. If there's one lesson here, it's this: anytime lawmakers try to "simplify" the retirement system, it's never simple. The only thing we can count on is more administrative burden and less flexibility for participants. As Lucille Bluth would say, "Here's some money, go see a Star War." Except in this case, it's "Here's some money — we're taking the taxes now." So grab a drink, tighten your compliance controls, and prepare for chaos. Because come 2026, this will truly be, to quote Lucille one last time — a hot mess.

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