Employer FAQs: Mandatory Roth catch-up provision

(SECURE 2.0 Act Section 603)

The following FAQs address many of the key administrative aspects related to the implementation of the mandatory Roth catch-up provision for your Mercer Wise 401(k) plan, as clarified by IRS final regulations issued in September 2025. The FAQs are for general informational purposes only and do not address specific situations or fact patterns. You are advised to consult with your tax and/or legal advisor for specific guidance.

Q: What is the SECURE 2.0 Act rule regarding mandatory Roth catch-up contributions?

A: Under Section 603 of the SECURE 2.0 Act, participants who earned more than $145,000 (as indexed) in FICA compensation in the preceding calendar year from the employer sponsoring the plan must make any catch-up contributions in the form of Roth contributions.

Note: On November 13, 2025, the IRS released the 2026 Internal Revenue Code limits for qualified retirement plans. The 2025 FICA wage threshold was increased to $150,000. This is the limit that will be used to determine if the Roth mandate applies to catch-up eligible employees in 2026.

Q: When does your Mercer Wise 401(k) plan need to comply with the Roth catch-up mandate?

A: Your plan must comply with the mandate starting in 2026. The IRS did not issue any further extensions under the final regulations. Starting January 1, 2026, plans must apply a reasonable, good-faith interpretation of the statutory provisions. It is also recommended that plans make a diligent and reasonable effort to comply with the final regulations which become applicable in 2027.

Q: Is the Roth catch-up requirement optional or mandatory for your Mercer Wise 401(k) plan?

A: The Roth catch-up requirement is mandatory for your Mercer Wise 401(k) plan, which offers both Roth elective deferrals and aged-based catch-up contributions.

Q: May a plan require all catch-up contributions to be Roth to avoid having to identify who exceeded the FICA wage threshold in the prior year?

A: No, this is not allowed under the final regulations. A plan cannot require all catch-up contributions be made as Roth to avoid the need to identify who exceeded the FICA wage threshold in the prior year. Participants who earn less than the threshold (as indexed) in the prior year must be able to choose between making catch-up contributions on a pretax or Roth basis.

Q: What Form W-2 FICA wages should be used to identify which employees are subject to the Roth catch-up mandate?

A: The final regulations confirm that wages are based on an employee's social security wages as reported in Box 3 of Form W-2.

Q: For purposes of determining prior year FICA wages for high-earning employees, must an employer only consider wages paid by the participant's current employer?

A: No. The final regulations allow – but do not require – employers to aggregate wages from one or more related employers in the same controlled or affiliated service group, or with employers using a common paymaster. For purposes of the Roth catch-up mandate, a common paymaster is an arrangement where one company in a group of related entities handles payroll and FICA tax payments for one or more entities in the group.

Note: In certain merger and acquisition cases, such as asset acquisitions, wages paid to an employee by a predecessor employer may be attributed to a successor employer.

Q: How do the rules apply to new hires and rehires?

A: New hires would not be subject to the Roth mandate in their first year of employment because they will not have any prior year FICA wages for this purpose.

Note: The wage threshold is also not pro-rated in the employee's year of hire. For example, if an employee is hired on Oct. 1, 2025, the employee won't be subject to the Roth mandate in 2026 unless the employee's FICA wages for the last three months of 2025 exceed the full 2025 wage threshold of $150,000.

For rehires, the total FICA wages with the current employer for the prior year would be considered in the determination. For example, if a participant was rehired in a prior year and had total FICA wages above the wage threshold for that prior year, the participant's catch-up contributions would need to be made on a Roth basis. Employers should review indicators for rehires to ensure they accurately reflect a rehire's FICA prior year status.

Q: How should you notify Mercer of participants who exceed the FICA wage threshold?

A: There are two options to inform us of the impacted participants. Please see the instructions for submitting the FICA Prior Year Indicator. We request that this information be provided on an annual basis as soon as reasonably practicable after the last payroll of the prior calendar year and preferably before the first payroll of the new year.

- **Option 1:** Upload a list of participants who exceeded the wage threshold for the prior year.

- **Option 2:** If you have a small number of employees or rehires that qualify for this mandate, you can manually update the PSC with the indicator.

You will be able to see this indicator by participant under the *Participants* » *Employee detail* tab in the Compensation section on the Plan Service Center (PSC). Additionally, this indicator is expected to be integrated into the Participant Year-to-date 402(g) Detail report.

Note: In addition to the annual process, there may be circumstances during the year when the mandate ceases to apply to a participant and requires the FICA Prior Year Indicator to be removed. In these instances, it is your obligation to update the PSC (Option 2 above) to remove the indicator. Please see the Q&A below pertaining to your responsibilities with respect to payroll for examples when this situation may apply.

Q: What is a "deemed" Roth election?

A: A deemed Roth election is an optional administrative feature that allows a plan to treat a participant's existing election to make pretax catch-up contributions as an election to make designated Roth catch-up contributions, for example after the participant's 402(g) limit has been reached in a year. Deemed elections may be used regardless of how a plan designates elective deferrals as catch-up contributions (i.e., via a "spillover design" or a separate catch-up election).

Having a deemed Roth election in place eliminates the need for a plan to obtain a participant's affirmative election before switching a participant's deferrals from pretax to Roth for catch-up purposes. It's also a requirement for a plan to take advantage of the additional correction methods set forth in the regulations to the extent pretax deferrals should have been made as Roth catch-up contributions under the mandate (please see the Q&A below pertaining to correction methods).

Q: Will Mercer implement deemed Roth elections for your Mercer Wise 401(k) plan?

A: Yes. Deemed Roth elections will be implemented for your plan, as this is required to take advantage of the corrective options noted below. We anticipate that most employers will want to take advantage of these corrective options. If you have any concerns or would like to discuss, please reach out to your client service manager.

Q: How can participants avoid a deemed Roth election?

A: A plan must provide impacted participants with an effective opportunity to change their deferral election (e.g., to stop deferrals or lower the deferral percentage) so that no catch-up contributions subject to the deemed Roth election are contributed to the plan as Roth contributions. An active participant has the option to make deferral changes at any time, and any such changes will be effective as soon as administratively feasible after the change.

Q: Can any Roth contributions satisfy the mandate, such as those made prior to reaching the applicable limit?

A: Yes. The regulations allow (but don't require) a plan to count toward the mandate any Roth contributions made by the employee before reaching the applicable limit. Some payroll providers refer to this as "pretax optimization". Please consult with your payroll provider to discuss available options.

Q: With deemed Roth elections, what are your responsibilities with respect to payroll?

A: It is the employer's obligation (working with their payroll provider / payroll department) to change a participant's deferral from pretax to Roth, as necessary. Mercer does <u>not</u> control this process.

Additionally, employers must cease to apply a deemed election within a reasonable period of time if an employee is no longer subject to the mandate. Examples include:

- An employee who transfers during the year to another participating employer within the controlled group from whom the employee received no FICA wages in the preceding year (i.e., because the plan does not provide for aggregation of wages).

- An amended Form W-2 is provided to the employee for the preceding year indicating the employee's FICA wages didn't exceed the mandate's threshold.

Q: Will Mercer automatically change a participant's pretax election to comply with the mandatory Roth catch-up provision?

A: No. We will <u>not</u> change or "zero out" a participant's pretax election, as doing so would override a participant's election and require the participant to go back in the following year to reestablish their prior pretax deferral election. It will be up to employers and their payroll provider / payroll department to remit catch-up contributions as Roth when applicable or to cease to apply the mandate if it's no longer applicable to a participant (consistent with the requirements for a deemed Roth election).

Q: For employees subject to the mandate, what methods are available to correct pretax deferrals that exceed the applicable limit?

A: The regulations include the following two methods to correct Roth mandate errors for plans applying deemed Roth elections. Plans generally can use either correction method (to the extent available) so long as the same correction method is used for similarly situated employees. Plans that are unable to use either method would have to distribute the erroneous pretax deferrals to participants.

- **Form W-2 correction method**

  This method involves a transfer of contributions, adjusted for earnings or losses, from the employee's pretax account to the Roth account. The employer must also report the contributions, unadjusted for earnings or losses, on the employee's Form W-2 for the deferral year. The Form W-2 correction method is available only if the employer hasn't yet issued the employee's Form W-2 (which is due by Jan. 31 following the year of deferral).

- **In-plan Roth rollover correction method**

  This method involves a rollover of the pretax deferrals that should have been made as Roth catch-up contributions, adjusted for gains or losses, to the employee's Roth account. The plan must report the full rollover amount on Form 1099-R for the year of the rollover. A plan can use the in-plan Roth rollover correction method even if the plan doesn't offer in-plan Roth rollovers to employees, and employees don't have to elect or agree to a corrective rollover.

Note: The final regulations also include two narrow exceptions to the requirement to correct Roth mandate errors, which apply in cases of *de minimus* amounts that do not exceed $250 and for FICA-wage determinations that occur after the correction deadline.

Q: What messaging will participants see on the participant website?

A: For participants that have the FICA prior year indicator on their account, the following message will be displayed on the participant website to notify them that any catch-up contributions will need to be made as Roth:

"Age-based catch-up contributions must be made as Roth due to exceeding the FICA wage threshold in the prior year."

Q: In what other ways will Mercer support this provision?

A: For participants with a FICA prior year indicator, payroll warnings will be provided in the event a participant exceeds the pretax 402(g) limit. These messages will inform your payroll that any additional pretax catch-up contributions are not allowed. The notices will be warnings only. We will <u>not</u> affirmatively change a participant's deferral to Roth.

Additionally, we have sample participant communications that you may share with your employees as appropriate.

Q: When will the plan document be updated to reflect the Roth catch-up mandate?

A: Plan document amendments to the Mercer Prototype Defined Contribution Plan to reflect these and other legislative changes (e.g., the CARES Act, SECURE 1.0 Act, SECURE 2.0 Act) will be provided in 2026 for your review and adoption, as applicable. The deadline for adoption is December 31, 2026.