

Just Catching Up? Payroll Challenges Plague Roth Catch-Up Contribution Implementation

Article By:

Sarah L. Engle

Brian J. Tiemann

In this series of articles, we explore the implications of SECURE 2.0's changes to catch-up contributions and how employers should respond.

The [SECURE 2.0 Act](#) requires participants who earned more than \$145,000 in FICA wages in the prior year from their current employer to make all catch-up contributions on a Roth basis beginning in 2024. This new rule has quickly become one of the most talked about changes included in the act, as employers grapple with not only questions regarding how the rule should be applied but also the significant implementation challenges posed by the change.

IN DEPTH

For many employers, the primary concern is how to integrate the new rule with how payroll deductions for catch-up contributions are processed and then transmitted to plan recordkeepers. There are two primary approaches for doing so:

- Single “spillover” contribution elections, under which an eligible participant’s catch-up contributions will begin only after the participant reaches the IRS annual limit on regular contributions (\$22,500 for 2023). Under this approach, a participant is not required to make a separate catch-up contribution election. Instead, the participant makes a single, regular contribution election. Then, if the participant’s regular contributions reach the IRS annual limit on such contributions prior to the end of the calendar year, the participant’s contributions will automatically continue as catch-up contributions until the participant reaches the catch-up contribution limit (\$7,500 for 2023).
- Separate contribution elections, under which an eligible participant’s regular and catch-up contributions are taken concurrently throughout the year. In such cases, a participant is required to make a regular contribution election and, if desired, a separate catch-up contribution election. Even if the participant has not yet reached the IRS limit on regular contributions, following such an election, catch-up contributions will be taken from the participant’s paycheck at the same time as regular contributions. At the end of the year, the

contributions are then recharacterized—to the extent necessary—to ensure that no participant receives catch-up contributions without reaching the IRS annual limit on regular contributions.

While neither approach is new, SECURE 2.0 leaves many unanswered questions about how its Roth catch-up contribution requirement should be applied (or even if it can be applied) under both.

First and foremost, employers do not have existing processes that will allow them to determine the total amount of employees' prior year FICA wages by January 1 of the immediately following year. Instead, it often takes several weeks after year-end to have final payroll data that might support such efforts. This lag poses challenges for all employers. But those issues are even more significant for some plans because of how contribution elections are processed. For example, under some plans that permit separate regular and catch-up contribution elections, those contributions are taken concurrently, even if the employee has not yet hit the IRS annual limit on regular contributions. Under such plans, catch-up contributions may begin immediately with the first pay date of the year, meaning that any lag in the information needed to determine prior year wages would hamstring efforts to correctly determine who is above the \$145,000 threshold before contributions begin.

Obstacles to operationalizing the change are no less complicated for employers who use spillover-style catch-up contribution elections. While those plans require employees to hit the IRS annual limit on regular contributions before catch-up contributions begin, meaning that a brief lag in determining prior-year-end wages may not be as detrimental, there is no automated process under those plans to have the spillover apply across contribution sources. This means if a participant is making regular contributions on a pre-tax basis when the participant hits the IRS limit on those contributions, additional catch-up contributions would automatically continue in the same form regardless of the employee's prior year wages.

In addition, under both types of plans, questions remain regarding how to handle certain situations where adjustments to prior year pay—which may occur after current year contributions begin—impact whether an employee is considered a sufficiently high-wage earner for purposes of the mandatory Roth catch-up contribution requirement. In both cases, employers may end up contributing pre-tax deferrals to plans that are later determined need to be recharacterized as Roth or Roth deferrals that are later determined the employee could have made on a pre-tax basis. Further guidance is needed on how to address that issue, including how to properly correct and report amounts required to be (or not required to be) withheld on the contributions.

Beyond the logistical challenges presented by those issues, other concerns also need further clarification, including:

- Whether employers may still treat Roth contributions made to their plans prior to reaching the IRS annual limit on regular contributions as catch-up contributions;
- Whether employers may utilize single elections that do not specify Roth contributions but that could now result in Roth catch-up contributions;
- Whether employers may still recharacterize pre-tax contributions as Roth contributions for non-discrimination testing purposes;
- Whether employers may require all catch-up contributions to be made on a Roth basis, regardless of the total FICA wages received by employees, to simplify the complexity around

implementation; and

- Whether the rule applies to individuals who do not receive FICA taxable wages (e.g., partners or other self-employed individuals who instead pay SECA taxes), which are the basis for the application of the \$145,000 wage threshold.

Many of these questions need to be addressed before it is even feasible to begin making related payroll and recordkeeping changes. In addition, payroll-related changes are notoriously time-consuming and require careful testing to ensure they work correctly. Therefore, service providers and industry groups continue to push for priority guidance to ensure that employers have time to operationalize the changes by 2024.

For any questions regarding SECURE 2.0 changes, please contact your regular McDermott lawyer or one of the authors.

Read First Article: [Just Catching Up? SECURE 2.0 Roth Catch-Up Contribution Requirement Leaves More Questions than Answers](#)

Read Second Article: [Just Catching Up? All for One, or None for All, Catch-Up Contributions Under SECURE 2.0](#)

Read Third Article: [Just Catching Up? Wages, by Any Other Name, Not So Sweet for Employers Under SECURE 2.0](#)

© 2025 McDermott Will & Emery

National Law Review, Volume XIII, Number 177

Source URL: <https://natlawreview.com/article/just-catching-payroll-challenges-plague-roth-catch-contribution-implementation>