SchoolsFirst
Plan Administration, LLC

Memo

Re: Changes to Age Based Catch-Up Contributions, Section 603 of SECURE 2.0 Act.

Age Based Catch-Up Contributions Changes

Section 603 of the SECURE 2.0 Act limits the ability to make pre-tax elective deferral catch-up contributions for employees who earned $150,000 or more in FICA wages (indexed for inflation) in the prior calendar year. These employees, if eligible for age-based catch-up contributions, age 50(+), must make catch-up contributions on a Roth (post-tax) basis.

This requirement is mandatory for 403(b) and governmental 457(b) plans and became effective January 1, 2026.

Background/History

"Catch-up" contributions for individuals age 50(+) first became available under Economic Growth and Tax Relief Reconciliation Act (EGETRRA) of 2001. This provision expanded retirement savings opportunities across 401(k), 403(b), and IRA plans and has since become a standard feature in employer-sponsored retirement plans.

This provision was intended by Congress to be a revenue raiser for the legislation by reducing the income that is deducted through contributions to a pre-tax account.

Data Request

To support district compliance with 403(b) and 457(b) plan requirements, and to assist employees in determining eligibility for age-based catch-up contributions, we request the following data elements:

- Full Social Security Number
- Last Name
- First Name
- Date of Birth
- Date of Hire
- Prior year FICA Wages (box 3 of W-2)

Ongoing Annual Data Requirement

To maintain compliance, all required data must be submitted through PlanVue by June 30, 2026, and by February 15th of each subsequent year.

Failure to provide the requested data may result in:

- Contributions being stopped prematurely, and/or
- Contributions being returned to the district for W-2 adjustment and reimbursement the Employee

These actions are necessary to mitigate potential plan compliance issues and avoid adverse findings during IRS audits.

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Roth Catch-Up Contribution Changes

To comply with the SECURE 2.0 Act, beginning January 1, 2026, if an employee makes age-based catch-up contributions (age 50+ or age 60–63) and their prior year FICA wages (Box 3 of your W-2) exceeds $150,000, all such catch-up contributions must be made on a Roth basis in accordance with IRC Section 414(v)(7)(A).

FICA wages

- FICA wages include salary, tips, bonuses, commissions and taxable fringe benefits (Box 3 on W-2).
- FICA wages would be defined by reference to Social Security taxes and considered in the same year that they are considered for Social Security tax purposes.
- Wage calculation is not prorated or aggregated across multiple employers. Eligibility is only met upon exceeding the $150,000 (indexed) threshold with the current employer.

Roth contributions:

- Section 603 applies to age 50+ and the enhanced age 60-63 catch-up contribution types.
- All Roth contributions made during the year count towards the Roth catch-up limit. This will be regardless of when they were contributed for purposes of determining if the mandatory Roth deferrals are satisfied.

Correction method:

- Distribute pre-tax contributions and earnings: Employers may return the contribution as an excess deferral to the plan. (Employers must return excess deferrals in the scenario where Roth is not available to the plan).
- Correct W-2: Employers may correct the W-2 for the same tax year and must be corrected before issuance to the employee.

Exclusions and Impact

- FICA Participation: An individual who did not have any FICA wages from the Employer from the prior calendar year **would not** be subject to the mandatory Roth catch-up and can maintain Pre-Tax Salary Contribution catch-up.
- Optional Roth Offering: Employers are not mandated to offer Roth. If Roth is not offered, those participants earning greater than $150,000 (indexed) in the previous year cannot make any catch-up contributions. Those employees under the $150,000 income threshold may contribute age base catch-up contributions to a pre-tax source.